

# Public Utilities

*FORTNIGHTLY*



---

May 10, 1945

WENDELL WILLKIE'S LEADERSHIP AS A UTILITY EXECUTIVE

*By Ralph B. Cooney*

« »

More Precision Needed in Utility Regulation

*By John Bauer*

« »

An Engine That Runs on Air, Liquids, and Cheap Fuel

*By Robert M. Hyatt*

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PUBLIC UTILITIES REPORTS, INC.  
PUBLISHERS

# Our Thanks to Industry

Egry is fifty-two years old. Not many business enterprises in this or any other country have been privileged to reach that enviable goal. And while we are proud of this distinction, we know it would not have been possible without the loyalty and co-operation of our customers and friends. For this manifestation of confidence and understanding we are indeed grateful.

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In the meantime we pledge to present and future users of Egry Business Systems the same prompt, efficient, courteous service, and high quality business forms that have characterized this Company and its products for over fifty years. And we look forward to a continuation of the pleasant business relationship we have enjoyed with a large family of Egry users during the past half century.



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EGRY CONTINUOUS FORMS LTD.,

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for your trade.  
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pliance Burners, and  
regulators.

Although we are now partially engaged on essential war contracts, our regular line of burners and regulators is available for industrial, commercial, and home uses, in accordance with existing Federal regulations. Of course, not every one who wants or needs these products can now obtain them. But one thing we and you can do NOW is to strongly recommend Barber gas-saving regulators to every user of every type of gas.

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# BARBER GAS PRESSURE REGULATORS

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# Public Utilities Fortnightly



VOLUME XXXV

May 10, 1945

NUMBER 10

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**[Q]** This magazine is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenues; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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MAY 10, 1945

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Thin Blade Cutter



• That unusual thin-blade wheel knifes right through pipe, quickly, easily and practically without burr—because it's made of tool-steel, coined from heavy sheet, heat-treated and assembled in its solid hub. In the warp-proof malleable heavy-duty cutter frame it always cuts true, saves you time and effort.

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## Pages with the Editors

**T**HE passing of our late President under such sudden and untimely circumstances inevitably provoked discussion and speculation as to "what would have been" if he had not run for a third term, or a fourth term, or what would have happened if he had run and been defeated. Was it entirely the strain of the presidency which brought on the fatal hemorrhage?

SUCH speculation is, in the main, quite futile and settles nothing since it is based on a succession of hypotheses, none of which can be, of their very nature, demonstrated as necessarily sound. It is possible, with some deference to medical knowledge and care, to make out quite a case for the proposition that public responsibility can actually keep a man or woman of advancing years in sound health and mental vigor.

THE late Justice Oliver Wendell Holmes, who went to his reward at the ripe age of ninety-four, frankly discussed his ability to pass upon the fine-spun legal arguments presented to the highest court and pointed out that the habitually disciplined mind keeps itself in shape. Insurance company statistics show that, all other things being equal, professional men live longer and are in better average health than farmers and others whose outdoor life and

physical routines would, offhand, seem to be conducive to better physical condition. Holmes was suggesting, of course, that if he had not the responsibility of the bench and the exacting mental exercise that went along with it, he might have died much sooner—of boredom if nothing else.

**W**OULD Franklin Roosevelt have lived any longer as a modest country squire if he had never gone in for the stimulus and corresponding strain of public life? Obviously, no one can say for sure, but, as already suggested, a good argument might be made out either way. The late Al Smith once remarked jokingly, during one of his last birthday celebrations, that unsuccessful candidates for office don't live any longer than the successful candidates. He didn't, at any rate.

WHICH brings to mind the unforgettable figure of a recently deceased unsuccessful candidate for the presidency whose life span, during his mature years, was woven so closely together with that of the public utility industry in the United States — Wendell Willkie. Whether Willkie would still be with us had he succeeded in his quest for White House residency is another futile question. Possibly, under the strain of that office, he would have collapsed even sooner than he did. Perhaps, under the X-ray routine and goldfish-bowl type of medical supervision which Secret Service forces upon every President, the incipient ailment which led to the sudden death of Willkie might never have gotten started.

In this issue our opening article presents a picture of Wendell Willkie's leadership as a utility executive. It is a picture too often overlooked in the light of his more meteoric career as a contender for our highest office and as an international public figure. The author of this piece on Willkie is RALPH B. COONEY, veteran writer of business articles, now resident in New York city.



RALPH B. COONEY

*Willkie's instinct for publicity made a utility background an asset.*

(SEE PAGE 597)

**A**NOTHER article in this issue is somewhat out of character for the usual contributions to these pages. It is the article by ROBERT M. HYATT, technical writer of Hollywood, California, on the power plant which runs on air, liquids, and cheap fuel. (beginning page 618). Perhaps we rush in where angels fear to tread in giving publicity to this very new,

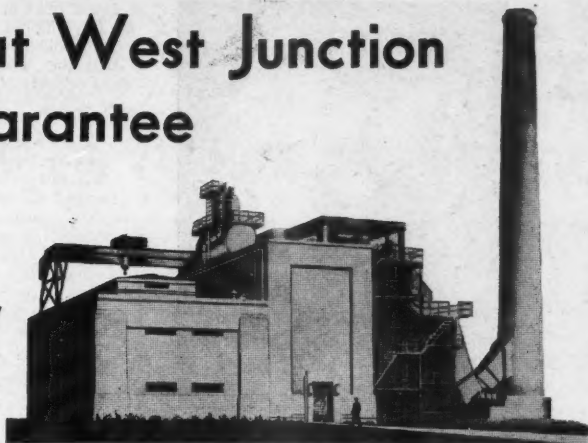
# Riley Unit at West Junction exceeds guarantee

Actual Efficiency

83.55%

Guaranteed Efficiency

81.9%



Houston Lighting and Power Company recently installed a 400,000 lbs./hr. Riley Steam Generating Unit, 1000 lbs. drum design pressure, 910°F. total steam temperature. The unit when producing 419,027 pounds of steam per hour operates at an efficiency of 83.55% though guaranteed efficiency was only 81.9%.

## TEST DATA West Junction Station

Lbs. Steam per Hour

419,027 lbs.

Drum Pressure . . . 893 lbs.

Superheater Outlet . . 862 lbs.

Steam Temperature . . 901°F.

Air Heater Exit Temp. 349°F.

### LOSSES—

Hydrogen in Fuel . . 10.67%

Moisture in Air . . . 18%

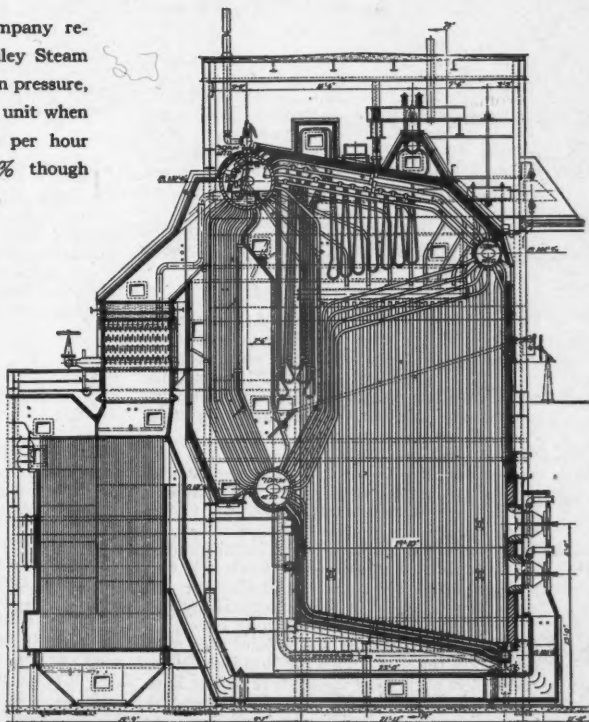
Dry Chimney Gas . . 4.64%

Radiation . . . . . 96%

Efficiency . . . . . 83.55%

100.00%

Houston Lighting and Power Co. operates two additional Riley Units at Gable Street.



# RILEY

STOKER CORPORATION, WORCESTER, MASS.

## COMPLETE STEAM GENERATING UNITS

BOILERS - PULVERIZERS - BURNERS - STOKERS - SUPERHEATERS  
AIR HEATERS - ECONOMIZERS - WATER-COOLED FURNACES  
STEEL-CLAD INSULATED SETTINGS - FLUE GAS SCRUBBERS

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JOHN BAUER

*When a fine watch gets out of adjustment, we don't throw it away; we regulate it more precisely.*

(SEE PAGE 604)

if not revolutionary, idea of running a power plant on a mixture of compressed air and what virtually amounts to an antifreeze solution. But inasmuch as we find ourselves in good company in the light of less detailed articles on the "Perrymobile" which have gone out over the national press association wires, we thought that the very readable and provocative manner in which Mr. HYATT explains the new power plant warranted our taking a chance.

THE postwar world is bound to see a number of innovations, as compared with the old way of doing things—new operating techniques for old processes and new products from old operating techniques. It is not too soon for utility management to consider what might be its share of the forthcoming postwar fruit of American inventive genius.

Nor long ago we sat in the hearing room of the special Senate Small Business Committee, headed by Senator Murray, Democrat of Montana, and witnessed with our own eyes some of the marvels which the light metal industry—so closely tied up to our hydroelectric supply—proposes to make available for the American people. We saw a beautifully patterned, fine aluminum mesh table cover, the duplicate of which was said to have been made especially for the Duke of Windsor. It resembled in every way the texture of fine linen. But it need never be laundered or pressed in the ordinary way. It defies stains, burns, rust, shrinkage, and in many other respects is said to be virtually indestructible.

We saw a beautiful golden evening dress, allegedly made from similar fine-mesh aluminum, with the same indestructible qualities. We saw a magnesium wheelbarrow a child

could hold in the air with one hand. We saw gayly colored aluminum foil wrappers said to be capable of sealing fruits and vegetables so that they remain fresh without refrigeration for periods of six months by merely wrapping as foil is wrapped about a candy bar.

ALL these and other marvels made us think, however, how such inventions are likely to shift our economic process so as to require further adjustment. What will become of the ladies' garment industry, for example, when once all of our ladies are outfitted with these garments that will neither shrink nor burn nor fade nor fall a victim of the moth? We have a canny notion that the ingenuity of American womanhood would accept this technological challenge in stride. They would certainly find some way to destroy these allegedly indestructible dresses. We have never known any woman who would willingly wear a garment more than two years without rebelling, no matter how well preserved it might be. Maybe the light metal industry is simply beating its head against the wall here. There are some things in which it is possible to go in for "overengineering." As a peppery old lady once told a shoe salesman who was trying to assure her that a certain pair of expensive shoes "would last a lifetime." She simply said, "Young man, only a simpleton would want the same pair of shoes to last a lifetime."

THE more extensive feature article in this issue on the need for more precision in utility regulation is the product of that nationally known critic of conventional utility regulation, Dr. JOHN BAUER. He has been for some years director of the American Public Utilities Bureau—a consulting group with headquarters in New York city.

AMONG the important decisions preprinted from *Public Utilities Reports* in the back of this number, may be found the following:

THE Missouri commission describes the procedure followed by its staff in determining the cost of reproduction of statewide telephone properties. (See page 257.)

A RULE requiring public utility companies to file cost-plus subcontracts under general cost-plus contracts was amended so as to except from the filing requirement subcontracts in an amount of \$1,000 or less, in view of the practice of letting small parts of the work under circumstances where filing of subcontracts would be unduly burdensome. (See page 317.)

THE next number of this magazine will be out May 24th.

*The Editors*

MAY 10, 1945

# Georgia Power Company finds **KARDEX** a key to friendly service

**"A CITIZEN  
WHEREVER  
WE SERVE"**

City	Customers
ATHENS.....	9,152
ATLANTA.....	107,016
AUGUSTA.....	17,852
BRUNSWICK.....	9,038
COLUMBUS.....	27,081
GAINESVILLE.....	5,592
MACON.....	19,711
ROME.....	11,663
<b>Total</b>	<b>207,105</b>

Georgia Families know from personal experience that the Georgia Power Company means what it says in the motto "A Citizen Wherever we Serve". Thousands and thousands, in their various contacts with this public utility, have come to know the smooth, efficient service that wins and retains friendships in every part of the community.

Many factors support this quality of service, and of major importance among them are Georgia Power's *Kardex Visible Systems of Record Control* in the eight cities shown above. *Kardex Customer Service Records* have made it possible to maintain improved service in spite of abnormal changes in customers and personnel.

*Kardex* expedites customer interview work by centralizing all needed data in quick-reference records. Accurate, complete information immediately provides clear, satisfactory

answers. The Customer History Record also constitutes a highly valuable credit control improving ability to pass on credit accurately and quickly.

The ease and speed of operation provided by the famous *Kardex* visible margin and sliding signal control do more than help to improve service. They also help to reduce operating costs and make it possible for new office personnel to function efficiently with minimum training.

We'll gladly supply full details of the benefits that *Kardex Visible Systems of Record Control* have brought to leading utility companies. Just call our nearest Branch Office.

**SYSTEMS DIVISION**  
**REMINGTON RAND**  
Buffalo 5, New York

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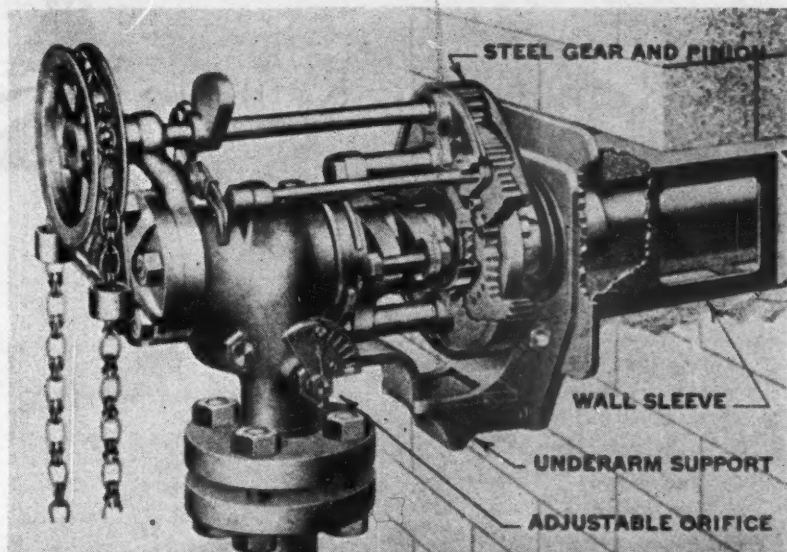
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## VULCAN AUTOMATIC VALVED SOOT BLOWERS

THE VULCAN AUTOMATIC VALVED HEAD, MODEL LG-2, was developed some 12 years ago as a result of an exhaustive study of existing soot blower heads and their capability of meeting the new and severe conditions about to be imposed on them by the modern high pressure boiler. A new design, breaking tradition with the old-fashioned low pressure heads, was indicated and the LG-2 head was designed with the following features in mind:

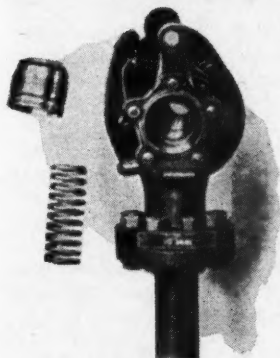
- (1) A head universal in its application
- (2) A head economical in steam (or air) consumption
- (3) A head easy to install
- (4) A head easy and simple to operate
- (5) A head low in maintenance and easy to service

The use of a pilot for operating the valve in the head proved to be the key to the required design and marked a radical departure from the traditional head of low pressure days. A single chain operating through a gear reduction revolves the element and, by means of stops at the end of the blowing arc, moves the pilot to open and close the valve in the head.

This design makes the LG-2 head universal in its application. The pilot operated valve permits the head not only to be used on low pressures but also on pressures up to 1500 pounds. Opening the valve in the head against high pressure, the bug-a-boo of most soot blower heads, is no problem with the Vulcan head as the steam pressure does the job, the operator merely having to move the small pilot valve.

Operators prefer the LG-2 head after using other heads because of its simple and easy operation. The enclosed cut steel gear and alloy pinion, the self lubricated special shaft bearings, and the enclosed ball bearing taking the steam thrust as well as the radial load all make for frictionless operation. Element binding and warping are prevented by the underarm support which balances the weight of the head and piping against an adjustable spring, without any cantilever effect on the element and permits the element to float inside the wall sleeve. A ball and socket joint in the sleeve prevents element strains by allowing relative motion of the setting and element and, at the same time, keeps the setting tight.

The interests of the contractor and boiler erector have not been overlooked in the design of the LG-2 head. It is, perhaps, the easiest head to install. Because of the flanged connection between the element and the head, the assembly of these parts in the field is relatively simple.



Cover Removed and Valve  
Parts Exposed

*Write for New Catalog*

## VULCAN SOOT BLOWER CORPORATION

Du Bois, Penna.



# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE



GEORGE DIXON  
*Columnist.*

"Secretary Ickes—the greatest Secretary of the Interior since Jonah."

EARL WILSON  
*U. S. Representative from  
Indiana.*

"Anyone who cannot do two to four hours' work at a time without coffee or tea should be lend-leased to the British."

EDITORIAL STATEMENT  
*The Washington Post.*

"TVA needs reasonable freedom in the use of its receipts in the same way and for the same reasons that any other big business needs such freedom."

J. HOWARD PEW  
*President, Sun Oil Company.*

"... the only difference between cartels among private enterprises and cartels controlled by government is that the latter are more reprehensible."

S. B. WILLIAMS  
*Editor, Electrical World.*

"There is a job of relighting America ready to start just as soon as equipments are available. Let's number the utilities among our early prospects."

ARTHUR A. BALLANTINE  
*Former Under Secretary of the  
Treasury.*

"If the difficult but real line between government regulation of private business and actual management or operation is deserted, the end seems inevitable."

CLAUDE PEPPER  
*U. S. Senator from Florida.*

"... big bankers in New York ... are already trying to scuttle Bretton Woods. ... The only hope of the people is that labor leadership will overcome these forces."

W. L. CLAYTON  
*Assistant Secretary of State.*

"I do not think the American people want government ownership of the air lines any more than they want government ownership of our merchant marine and our railroads."

A. S. MIKE MONRONEY  
*U. S. Representative from  
Oklahoma.*

"Every member ... knows that more than 90 per cent of the laws considered by this House are drafted not here on Capitol Hill ... but are drafted by men downtown in the departments. The very departments to be regulated and governed by the laws we pass prepare the language of the laws that are to govern them."

## WORKING TOGETHER ON WARTIME ACCOUNTING



Burroughs systems and installation men have been working constantly with officers in the armed services, government officials and war plant executives—helping them to find ways to handle all types of accounting with the greatest saving in manpower—helping them to adapt their Burroughs equipment to changing conditions and an increasing volume of work.

There are many reasons why Burroughs has been best qualified to help during the trying war years. The Burroughs field staff has had years of intensive training in machine accounting, and a broad, diversified experience. Information services, with current, practical machine accounting information, are maintained in all Burroughs branches. Burroughs' headquarters staff coordinates the total effort so that all Burroughs men are promptly informed of new, improved methods.

Burroughs is ready at all times to help you make the fullest use of the Burroughs equipment you now own.

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## REMARKABLE REMARKS—(Continued)

JOHN W. HANES  
*Chairman, Citizens National  
Committee, Inc.*

"Make yourselves heard in Washington in tones that will drown out all those who are seeking government handouts or special privileges at the expense of the taxpayer."

J. CLIFFORD FOLGER  
*President, Investment Bankers  
Association of America.*

"The nation has gone a long way down the road of riskless economy. In the mad chase after security, we have endangered the security of all. We have frozen savings in riskless securities and riskless pools of cash."

JOHN W. BRICKER  
*Former governor of Ohio.*

"There is nothing incompatible between a reduction in tax rates and the raising of ample revenues for reasonable government requirements. Taxes come from production. If we have the intelligence to put first things first, we will devise a system of taxation that will encourage production."

WALTER LECKRONE  
*Editor, Indianapolis Times.*

"There are no grounds for the often-quoted belief that poverty, economic depression, or overcrowding in aggressor nations are causes of war. Every historical fact refutes them. . . . The immediate cause of every large-scale war . . . has been the rise, or the attempt to rise, to predominant power in Europe by one nation."

EDITORIAL STATEMENT  
*The New York Times.*

"It cannot be pointed out too often that what counts for the economic welfare of all workers is not the highest average wage rate but the highest total payrolls. And it is certainly not reassuring for those who hope for a free peacetime economy to have both OPA talking as if it were still going to control prices after the war and WLB talking as if it were still going to control wages."

JAMES A. FARLEY  
*Former Postmaster General.*

"We are not fearful of the avowed enemies of the free enterprise system. They are few in number and they seldom attain positions of power. The men who will bear watching are those who profess to believe in free enterprise, but with certain conditions always attached, such as: provided it is helped by government, supplemented by government, protected by government against its own weakness."

WILLIAM H. DAVIS  
*Former chairman, National War  
Labor Board.*

"... of all the major drives being made by the common men throughout the world today, the drive for extension of collective bargaining is the only one which accepts the desirability of a capitalistic economy, which accepts private ownership, the wage system, and the profit motive as the best means of producing goods. In genuine collective bargaining, management's function is acknowledged as a vital, productive part of the free enterprise system."

# RAILWAY AND INDUSTRIAL ENGINEERING CO.

WORKS AND MAIN OFFICE

GREENSBURG, PENNA.

CABLE ADDRESS: RIECO  
CODE-WESTERN UNION 5 LETTER

STATION AND GENERATING  
EQUIPMENT

DEAR FRIENDS OF MANY YEARS  
IN THE ELECTRIC POWER BUSINESS-

Thirty years ago there were not many transmission lines. Those that were in operation were largely those needed to operate interurban traction systems. Do you remember those days?

It was then that we built the first practical airbreak switch. Since then we have continually worked at improving our designs and perfecting our product, always aiming at the highest standards of Quality and Service.

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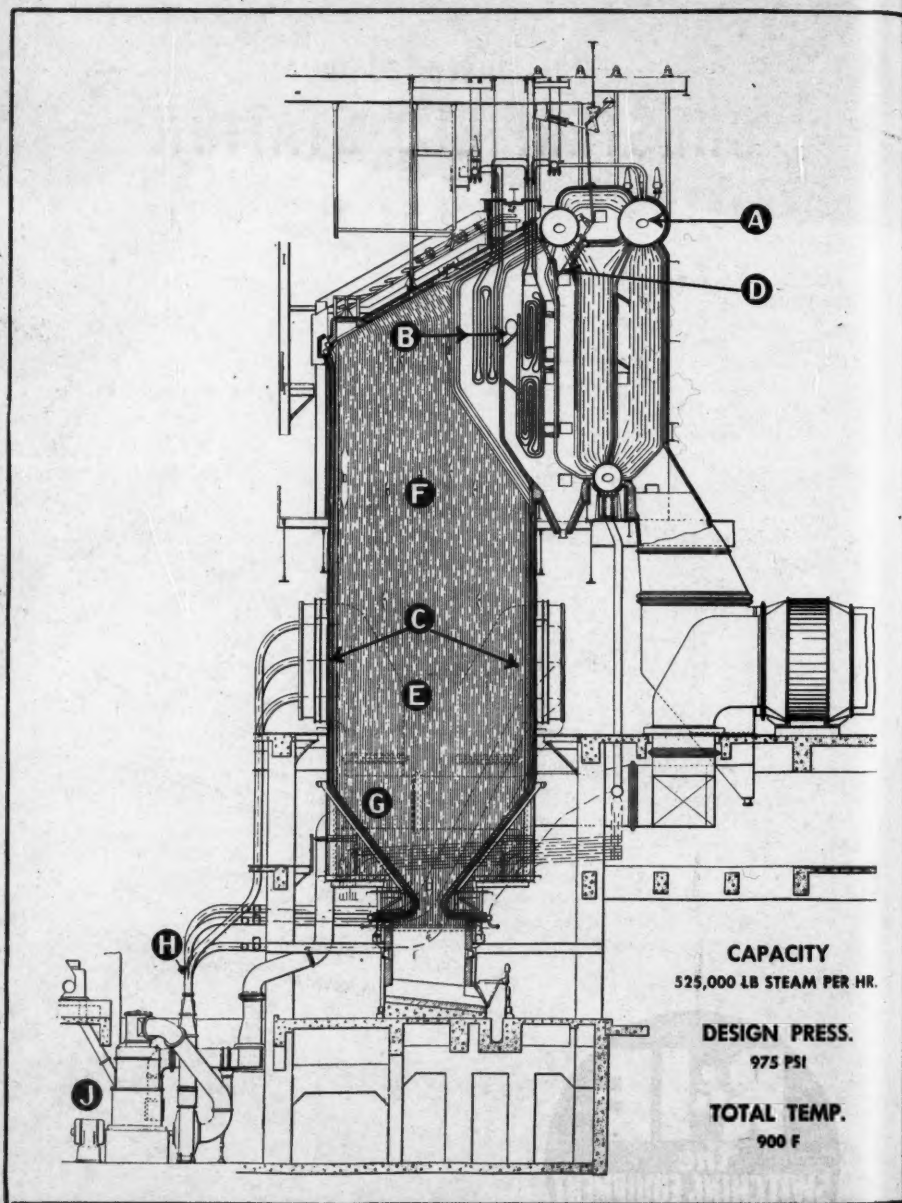
We hope and believe that our record merits your continued and increasing confidence.

Sincerely,

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the  
SWITCHING EQUIPMENT  
*Specialist*

# Present day TRENDS



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# in **UTILITY** Steam Practice

*as reflected in design characteristics of recent C-E Units*

Unit Installed in  
**CHESTERFIELD STATION**  
 Virginia Electric & Power Company  
 Chesterfield, Virginia

## PRINCIPAL DESIGN CHARACTERISTICS

- A** 3-drum boiler with large rear top drum providing ideal conditions for final steam cleaning and separation.
- B** Two-stage superheater with widely spaced tubes in first stage permitting low gas velocities and thus minimizing slag accumulation. Boiler and superheater surfaces in this area completely accessible for cleaning.
- C** Vertically adjustable burners permitting control of gas temperatures entering boiler and superheater and providing primary control of superheat temperature.
- D** Thermostatically controlled by-pass damper which provides final close control of superheat temperature.
- E** Tangential firing providing maximum turbulence and rapid completion of combustion.
- F** Simple, clean-cut furnace of ample volume for low heat release rates and with solid metal surfaces on all sides, top and bottom. All surfaces readily accessible for cleaning.
- G** Completely water-cooled hopper which, in conjunction with adjustable burners, permits full utilization of lower furnace heating surfaces
- H** Arrangement of mill piping which permits each mill to supply fuel to all four corners of furnace.
- J** C-E Raymond Bowl Mills provide quiet, dependable, low-cost operation — advantageous air-flow conditions for direct firing — fine grinding with low percentage of coarse particles. Permits use of high air temperatures for mill drying.

A-867A

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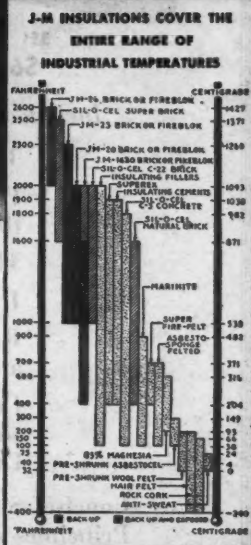
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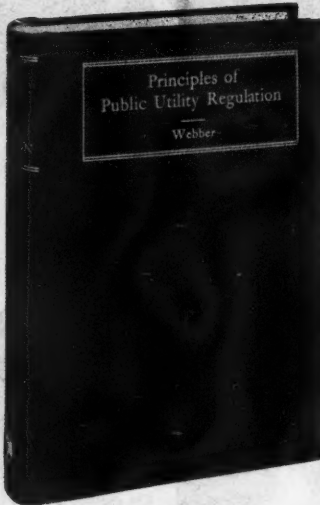
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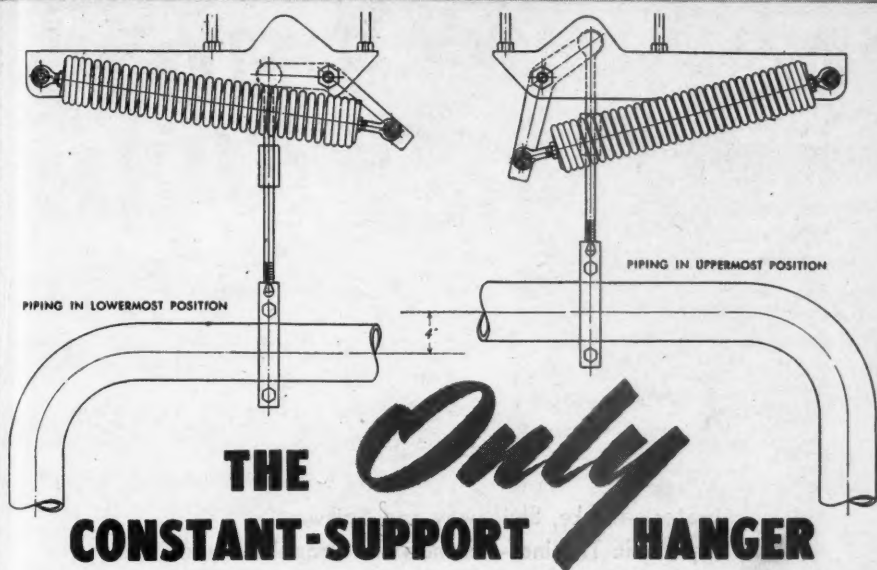
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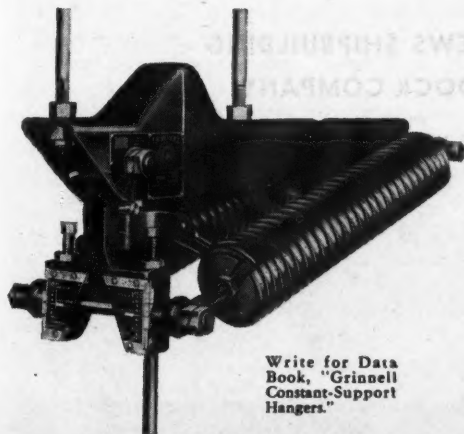
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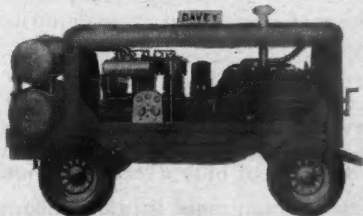
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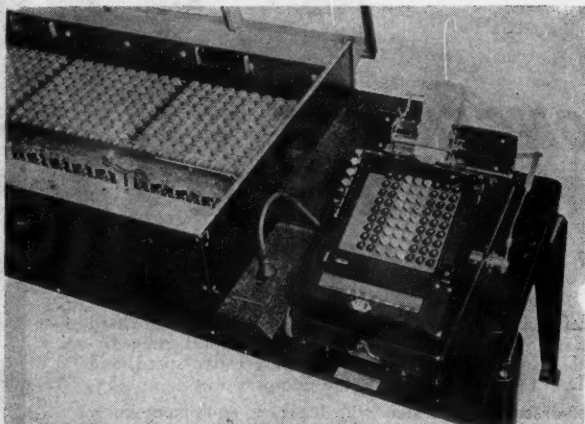
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At left, an Elliott geared multi-stage turbine, as built for marine generator drive. Above, Elliott standard single-stage mechanical drive turbine.

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# Utilities Almanack

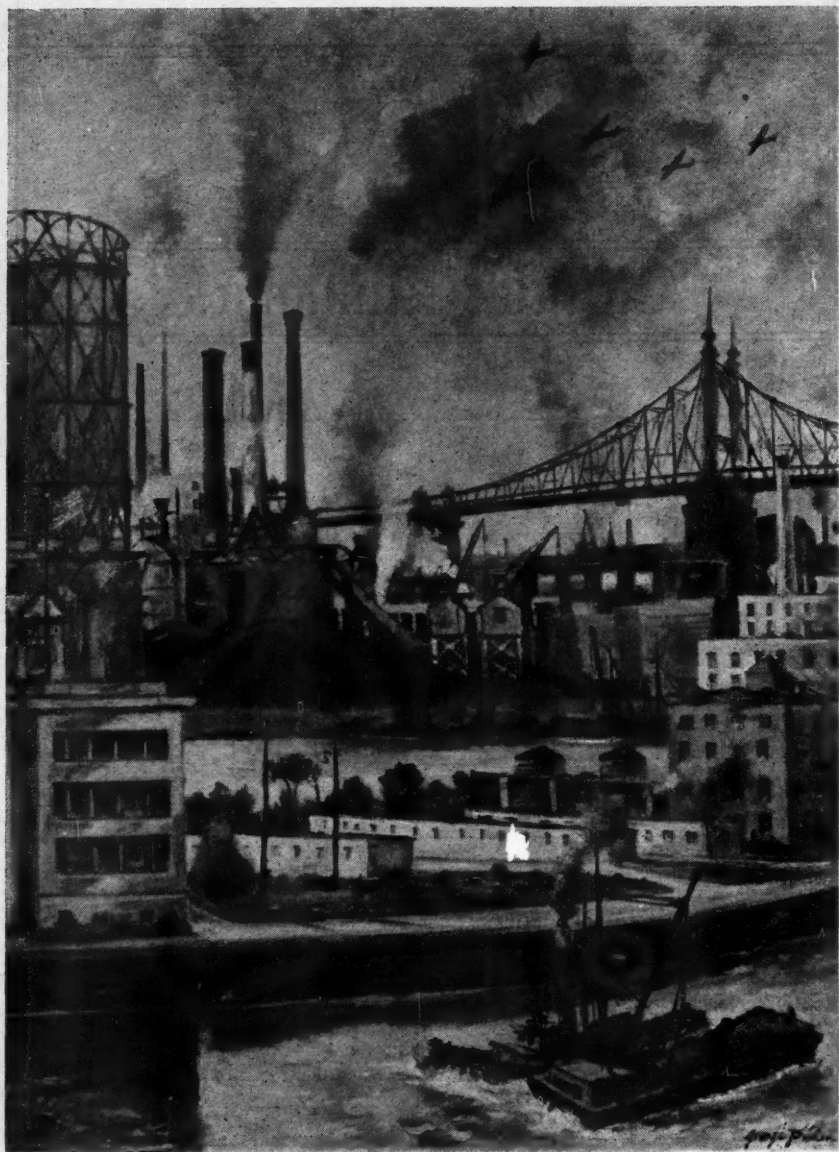
Due to wartime travel restriction, conventions listed are subject to cancellation.



MAY



10	T <sup>a</sup>	† New York Telephone Association will hold meeting, Syracuse, N. Y., May 24, 25, 1945.
11	F	† American Water Works Association, New Jersey Section, will hold meeting, June 8, 1945. 
12	S <sup>c</sup>	† Institution of Gas Engineers will hold annual meeting, London, England, June 12-14, 1945.
13	S	† Central Western Shippers Advisory Board will hold meeting, Omaha, Neb., June 14, 1945.
14	M	† Interstate Oil Compact Commission will hold quarterly meeting, Oklahoma City, Okla., June 15, 16, 1945.
15	T <sup>u</sup>	† American Society of Mechanical Engineers will hold semiannual meeting, Chicago, Ill., June 18-20, 1945.
16	W	† Pennsylvania Gas Asso. opens meeting (attendance limited), Philadelphia, Pa., 1945. † National Association of Broadcasters starts directors meeting, Omaha, Neb., 1945.
17	T <sup>a</sup>	† Pennsylvania Electric Association, Electrical Equipment Committee, starts meeting, Reading, Pa., 1945.
18	F	† American Water Works Association, Pacific Northwest Section, starts meeting, Gearhart, Or., 1945. 
19	S <sup>c</sup>	† Canadian Gas Association will hold annual conference, Murray Bay, Quebec, June 19-22, 1945.
20	S	† National Rural Electric Coöperative Association will hold meeting of national board of directors, Chicago, Ill., July 17, 18, 1945.
21	M	† American Water Works Association, Michigan Section, will hold meeting, Flint, Mich., Sept. 12, 13, 1945.
22	T <sup>u</sup>	† American Water Works Association, Southwest Section, will hold meeting, October 15-17, 1945.
23	W	† Missouri Valley Electric Association opens accounting conference, Kansas City, Mo., 1945.



Courtesy of K. M. Rehn Gallery

Elsie Hafner, N. Y.

### "Queensborough"

By George Picken

# Public Utilities

FORTNIGHTLY

VOL. XXXV; No. 10



MAY 10, 1945

## Wendell Willkie's Leadership As a Utility Executive

*Mr. Willkie proved in a most dramatic fashion, says the author, that the businessman who fights man-fashion on behalf of a business cause is not only employing the best strategy under the immediate circumstances, but is also following the course most apt to build continuing support, once the cause in question has been resolved.*

By RALPH B. COONEY

**I**N the months that have elapsed since the death of Wendell Willkie, much has been written about the impact of his mind and personality upon public affairs.

It is not, however, the purpose of this discussion to add materially to that analysis and interpretation. It is sufficient for our thesis to note the simple fact that through the last five years of his life he stood as one of the outstanding personalities of our times, respected throughout the nation.

Our concern is with the superficially amazing fact that Wendell Willkie stepped onto the broad stage of public influence from seven years of service as president of an electric utility holding company.

Certainly the chain of events which saw Mr. Willkie consummating the sale of the Tennessee Electric Power Company to the TVA one summer and preparing to campaign for the presidency of the United States the next was not in the conventional pattern.

## PUBLIC UTILITIES FORTNIGHTLY

But there was nothing illogical about them. Nor, to anyone who knows the spirit of the American people, were they even very surprising.

Mr. Willkie merely demonstrated a truth which businessmen generally can't make themselves believe. He proved, in a most dramatic fashion, that the American people respect leadership whenever it is exercised openly, candidly, and honestly. He proved that the businessman who fights man-fashion on behalf of a business cause is not only employing the best strategy under the immediate circumstances, but is also following the course most apt to build continuing support once the cause in question has been resolved.

This is a lesson of importance to all businessmen. It is a lesson of vital significance to the men who direct our privately owned electric utilities.

**T**ODAY, these utilities are enjoying a period of comparative calm. Their contribution to the war effort has been magnificent, and criticisms have been few and far between. Administration of the restrictive legislation which once aroused such controversy is proceeding quietly, and with practically no public name calling. Right now, it would be easy to believe that the rôle of the utilities in our economy had been stabilized, and their rights, under the new laws, thoroughly acknowledged.

It would be overly optimistic, however, to conclude that such a state of affairs can permanently endure. The very nature of the public utility—and particularly the electric utility—requires constantly renewed justification of its right to exist under private own-

ership. It is a monopoly, and has to be one. It provides services upon which society places the greatest dependence. During every period of public discontent, it stands as an inviting target on which to vent irritation.

The electric utility executive, therefore, can never forget for long the challenge which, somewhere along the road, lies in wait for him. His programs, policies, and practices must all reflect a continuing concern with the forces that mold public thought, influence public action, and guide the conduct of public officials.

The great benefit conferred by a quiescent interval rests in the fact that, for a little while, he has time to appraise and analyze his situation and to consider the steps which will best prepare him for the eventualities that lie ahead. This, then, seems a good time to think about the lesson which Wendell Willkie's career provides.

**W**HEN Mr. Willkie assumed the presidency of the Commonwealth & Southern Corporation in 1933, the electric utilities were engulfed in an atmosphere of deep gloom, charged with lightning. One great utility empire had but recently crashed with resounding repercussions. Another was being attacked for the audacity of its financial manipulations. Thick reports resulting from a 3-year investigation on the part of the Federal Trade Commission were implying, when not openly charging, highly dubious behavior on the part of the electric power industry in the general conduct of its affairs, and particularly in its relations with the public. And arriving in the White House was a crusading President, with a clear mandate from the

## WENDELL WILLKIE'S LEADERSHIP AS A UTILITY EXECUTIVE

people and an avowed distrust of all "economic royalists." More important still, he had decided ideas on electric power!

All this was particularly discouraging because it reflected the failure of a mighty effort, extending over fifteen years, to win the public to the utilities' cause. Hundreds of thousands of dollars had been expended, yet in these difficult days, to use *Fortune's* phrase, "hardly a disinterested voice was raised in their defense."

Nor did the threat pass over. The TVA quickly became a reality, and was soon brandishing the "yardstick" of government operation with vigorous self-righteousness.

THE Wheeler-Rayburn "Holding Company" Bill pushed its steady way towards the statute books, releasing storms of controversy and years of litigation. All the ammunition available to political leaders came to power as the result of widespread public disillusionment and dissatisfaction was hurled without stint at the electric utilities.

They put up a vigorous defense, but found themselves fighting with weapons which, somehow, had lost their effectiveness. Techniques in which utility leaders had come to place the greatest faith backfired and brought only more trouble. And they either

didn't know or didn't have confidence in any others.

But Wendell Willkie did!

Amidst the confusion, the worry, and the tinkering with outmoded strategies, he stepped vigorously into the arena, armed with a startling philosophy. In the first place, he didn't consider it either necessary or desirable to pose as anything other than what he was—the president and avowed advocate of a specific, clearly identified holding company—by name, the Commonwealth & Southern Corporation. In the second place, he didn't mind admitting that he was in business to make money—for his company and himself. In the third place, he avowed that this was a perfectly legitimate objective, and that he was going to fight for the right to attain it. In the fourth place, he considered it his privilege as a citizen and his duty as a responsible corporation executive to say and do everything possible that would help his cause, and expected, quite as a matter of course, to take full public responsibility for his words and deeds.

MR. WILLKIE worked with many of the same tools that the utility leaders had been employing all along. But he handled them somewhat differently. He, as they had been doing, sought to influence legislative action, secure favorable decisions from



"... in destroying the knight versus dragon illusion, he [Willkie] forced government to respect the rights of investors and business concerns as citizens of the republic. The Tennessee Electric Power Company commanded a price approaching its worth, and the application of the Holding Company Law has been marked by an administrative decency which would have seemed hardly possible a decade ago."

## PUBLIC UTILITIES FORTNIGHTLY

the courts, guide the policies of public officials, and persuade the public to his way of thinking. But where these things had been done quietly, unobtrusively, almost furtively, and through channels which guarded the anonymity of the prime movers concerned, they became, with Mr. Willkie, occasions for candid public performance. He welcomed the hearing before a congressional committee. He announced legal actions with a flourish of press releases. He traded blows with his opponents in government over the airways, through magazine articles, and in newspaper interviews. His views were public property.

To conclude, however, that Wendell Willkie's contribution to the utilities' cause was merely the result of a willingness to brave the glare of the spotlight is to understand only half the lesson. A man must do something more than just shout down his opponents if he is to gain understanding, support, and respect.

Mr. Willkie's leadership in the utility controversies was based on considerably more than an upraised voice and a gift for words. It rested upon a constant analysis of the government's arguments and the utilities' case. It reflected earnest thought about the obligations of the power companies to society. It comprehended past abuses and errors. It recognized the necessity for constructive suggestions. It was buttressed by progressive developments within the system Mr. Willkie headed.

OF course, Mr. Willkie enjoyed the advantage of association with a holding company which even the die-hard antiutility forces agreed was a

"pretty good one." Nevertheless, he scoured its internal structure even cleaner. He knew that his own house must be in sound shape before he challenged those who would rip it, and all its like, apart. Through the application of the self-reducing objective rate, coupled with vigorous appliance and equipment sales campaigns, he assembled convincing evidence that private utilities could spread the blessings of electric power generously and economically. When he entered the lists of controversy, he backed his attacks with carefully prepared and well-presented counterproposals. He knew the value of being *for* things.

In short, his thinking, his programs, and his practices gave significance to his words.

And what did all this accomplish?

One thing above all else. It changed the whole character of the conflict between the New Deal and the utilities. Until Mr. Willkie's influence began to be felt, it was a struggle between the people's champions — noble men in shining armor—and a great, fearful, soulless dragon—a Power Trust completely devoid of human attributes. Under Mr. Willkie's forceful counter-attack, it became a simpler and more honest thing — a controversy between men.

WENDELL WILLKIE deglamorized a carefully built up circus performance; he robbed the political leaders of the very aura of chivalric courage they had been most eager to create. When he threw aside the papier-mâché head of the dragon he shredded the tinfoil which the knights had paraded as armor.

Mr. Willkie could neither prevent



### Willkie Formula

**"T**HERE is no mystery about the Willkie formula. Any utility leader with the will to do so can make use of it. It can be applied to local issues as well as national ones. It can be applied in time of calm as well as time of stress. The more diligently it is followed during placid intervals, the more effective it will prove when trouble stirs."

---

the enactment of the death sentence clause nor keep the TVA from gaining control of the territory it coveted. He alone could neither overcome the great political forces at the command of a determined national administration nor erase all memories of the past abuses and errors attributed to the utilities generally.

But, in destroying the knight *versus* dragon illusion, he forced government to respect the rights of investors and business concerns as citizens of the republic. The Tennessee Electric Power Company commanded a price approaching its worth, and the application of the Holding Company Law has been marked by an administrative decency which would have seemed hardly possible a decade ago.

Moreover, Wendell Willkie proved that a utility executive can win the ear, the esteem, and the confidence of his countrymen. Indeed, he proved that only by such action can the rights of the utilities be preserved.

There is no mystery about the Willkie formula. Any utility leader with the will to do so can make use of it. It can be applied to local issues as well as national ones. It can be applied in time of calm as well as time of stress. The more diligently it is followed during placid intervals, the more effective it will prove when trouble stirs.

**U**NDoubtedly, much of the attention Mr. Willkie obtained grew from the fact that he took his stand in the face of violent attack. But one of the chief reasons the utilities were under such bombardment was their inability to learn how to exercise the kind of business leadership which Mr. Willkie demonstrated. If, through the years preceding his appearance, a substantial group of top utility executives had frankly explained and advanced their legitimate business objectives, the dragon myth would never have reached the proportions it acquired.

For one thing, a whole industry

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would not have been damned because certain men could not resist the temptation to misuse the holding company—a device which, properly employed, possessed value of utmost importance to the economic development of the nation. For another, the utility leaders might not have formed so smug an opinion of the effectiveness of their public relations job. Benefiting by direct public reactions to their views, they might well have corrected some of the faults which later arose to haunt them. After all, many of these were the result of blunders rather than bad faith; handled according to Mr. Willkie's tactics, they would have been aired, treated for what they were, and eradicated.

Application of the Willkie formula calls, first of all, for searching self-examination. It stimulates an internal scrubbing of basic attitudes, of policies, of methods. It encourages the casting out of faulty practices before criticisms have a chance to arise from without. It is the foundation for all else that is done.

**B**UT the Willkie formula is much more than a negative one; it looks beyond the mere eradication of faults to the establishment of active and positive support. To follow it to its goal requires acceptance and employment of five further principles.

It requires full recognition of a public utility's responsibility to and interest in the public. It acknowledges the people's right to be inquisitive, and urges rather than avoids the fullest examination of all issues which may arise.

It places faith in the public's willingness to grant business a right to ex-

ist and to progress, so long as business is honest about its purposes and procedures, and makes that honesty plainly apparent.

It acknowledges that a corporation is simply a man-ordered device for operating business, that corporate responsibility is human responsibility, and that, particularly in the case of a utility, the public has a right to know who the key men are, what they are doing, and why they are doing it.

It calls for these responsible executives to take full *public* responsibility for the things done and said in the corporation's name.

**F**INALLY, it is based upon the understanding that leadership can never be merely passive—it must stand for things as well as against things; it must accept the spotlight of public attention; it must call for followers with a human voice.

There is nothing strange or unexpected about such an approach to building sound public relations. But through some peculiar stage fright which afflicts not only utility men but most business leaders, it continues to be rarely utilized. Today, there is as little public evidence that it is being employed as there was in the mid-twenties. Now, when such golden opportunities exist, one wonders why so few utility executives demonstrate any acquaintance with the lesson so ably presented by Wendell Willkie.

Perhaps they do not feel the need. Perhaps they believe that the dragon has been legislated out of existence, and that no more plumed knights will rise to hunt them. But the unknown can always be endowed with the characteristics of a menace. If they persist

## WENDELL WILLKIE'S LEADERSHIP AS A UTILITY EXECUTIVE

in retreating into their shells, the time is bound to come when illusions will again take on monstrous aspects before the eloquence of some new political St. George. The next time, there may be no man of Wendell Willkie's

caliber available to destroy illusion.

The time to prevent such an eventuality is now. The way has been made clear to all who will learn. It is to be hoped that the lesson was not taught in vain.



### Stamps Honoring Electric Age New Specialty

**P**OSTAGE stamp collectors have added a new specialty to their hobby—stamps dealing with electrical subjects. Many of the pioneers in electricity and electrical industries have been honored, according to Mrs. Edna E. Deutsch, New York philatelist.

In 1936 France honored Andre Marie Ampere, the man who first propounded the theory of electrodynamics and for whom the ampere was named. The stamp was issued in commemoration of the one hundredth anniversary of his death. In 1927 Italy issued a set of four stamps picturing Alessandro Volta, the Italian electroscientist for whom the volt was named. The set marked the one hundredth anniversary of Volta's death. The United States has issued two interesting stamps in tribute to electric light. Edison's first lamp is pictured on a 2-cent commemorative stamp issued in 1929 in honor of the fiftieth anniversary of electric light; a 5-cent air-mail stamp of 1928 shows an airplane flying past a beacon on a mountain.

In the field of the telegraph and the telephone, there is much to be found. Guglielmo Marconi, the inventor of wireless telegraphy, is pictured on a 3-cent-value set of stamps issued in Italy in 1938, the year after his death. The United States marked the noteworthy centenary of the first message transmitted by telegraph—"What Hath God Wrought?"—by issuing on May 24, 1944, a 3-cent stamp showing telegraph poles carrying wires down a long road. Samuel Morse has been honored both at home and abroad. His portrait appears on the 2-cent denomination of the Famous American Inventors series issued in this country in 1940; late in 1944, both Argentina and Peru noted the one hundredth anniversary of the electric telegraph. Alexander Graham Bell, inventor of the telephone, accompanies Morse in both the Famous American Inventors series of 1940 and also in the Argentine set.



## More Precision Needed in Utility Regulation

The establishment of a definite rate of return along with a prudent investment rate base and a comprehensive cost system for rate control advocated by the author.

By JOHN BAUER

SINCE the Supreme Court's decision in the Hope Natural Gas Company Case, January 3, 1944,<sup>1</sup> extensive consideration has been given to desirable transformation of the utility regulatory systems so as to eliminate the long-standing vaguenesses and indefinitenesses, and the consequent conflicts between public and private interests, and to provide for regular administration of rate control on the basis of exact facts as shown by the accounts and records of the companies under continuous commission supervision.

The difficulties of regulation, particularly rate control, have been due almost altogether to the nonprecise and variable standards which could not be subjected to prompt and exact factual determination, but required special inquiries, with quasi judicial hearings,

mainly opinion evidence, factual disputes, conflicts of interest, protracted, cumbersome, and costly procedures, and inconclusive findings, subject to court appeal and long litigation. And, then, all the uncertainties and disagreements had to be threshed over again, and again, whenever a significant new rate inquiry was undertaken.

In short, the standards and procedure have been unmanageable for systematic rate administration. It has been chiefly the nonadministrability of regulation that has resulted in failure to protect effectively either the public or private interests. For the most part, I submit, it has had the effect of maintaining excessive rates paid by consumers as individuals and, what is particularly significant in every community, restricting general economic and social advancement depending upon minimum available rates, especially electric. From the community and

<sup>1</sup> 320 US 591, 51 PUR(NS) 193.

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general industrial standpoint, the getting of effective regulation has high-ranking importance. If private utility organization under public control is to survive and perform reasonably its constructive function of furnishing essential and minimum-cost services for the variety of industrial and social uses, regulation must be transformed so that it can be regularly administered in accordance with exact showing of facts. The relative private and public rights must be precisely defined, definitely established, and equally protected through exact measurements and means of administration.

**S**IMPLY stated, rate making as a whole must be predicated upon an exact system of cost accounting. A company should be entitled to total revenues equal to the total cost of service, and no more. Every cost factor should be subjected to exact accounting under continuous commission supervision. The total costs should add up readily at any time to determine the total revenues that should be paid by the consumers.

There should be no conflicts of interest between the consumers as a whole and the investors in the fixing of reasonable rates. While special cost analyses and allocations are necessary in deciding upon differentials between rates paid by the different classes of consumers, which cannot be predicated upon exact accounting figures, definite costs can be shown to present and protect definitely the total investor and total consumers' rights in the fixing of rates. The supplementary studies to derive a comprehensive rate schedule are important, but they have not been a part of the general conflict between

public and private interests and have not contributed to the nonfunctioning of general rate control.

In considering a definite cost system, the fact should be realized that in regard to the bulk of the costs there has been all along substantial accounting control. This applies particularly to ordinary operating expenses and taxes; the amounts are usually taken directly from the accounts, with comparatively little dispute as to their correctness and propriety. The only important factor which, under past judicial requirements, could not be subjected to definite accounting control is the return to which a company is entitled. Because of the prescriptions by the courts, the amount of the return in any case could be ascertained only through special investigations and quasi judicial hearings—with the resulting complications and frustrations.

**T**HIS one uncertain factor has been the primary cause for the extensive breakdown in rate regulation. The amount of return, however, has involved two subfactors: (1) the "fair value" or rate base (a capital sum), and (2) the "rate of return" (a percentage); the first times the second equals the amount of return to which a company is entitled. Both subfactors have been indefinites and variables, subject to special determination predicated chiefly upon "expert" evidence. While the rate base findings have involved much more time and effort, the rate of return has been no less indefinite in concept and inexact as to fact, and no less in the effect upon rates. For effective regulation, each of the subfactors must be transformed to an exact accounting figure, so that the

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amount of return, as well as operating expenses, depreciation, taxes, and all special charges, can be taken directly at any time from the accounts and records to determine the total revenues to which the company is entitled, and which the consumers should pay through the rates charged for service.

Under the Hope decision, the commissions have been released from the old judicial requirements in providing for the return factor and, except for state restrictions, they are now free to establish such standards and procedure as they deem appropriate, provided only that the end result is not conclusively unfair to investors.

UNDER this new freedom, both the rate base and the rate of return can be transformed into exact accounting categories, along with all other rate-making factors. For this purpose, considerable attention has been given to the rate base, but relatively little to the rate of return. To establish a definite accounting rate base, "prudent investment" has been urged for adoption. This would consist of the original cost of the properties used in service, less their depreciation, plus working capital, subject to continuous commission supervision, so that the amount of the rate base can

be ascertained promptly at any time from the accounts.<sup>2</sup>

Along with such a definite rate base there is corresponding need of an exact rate of return. When both subfactors have been subjected to definite accounting, to compute the amount of the return will be easy arithmetic, and the difficulties of rate administration will have disappeared. With a comprehensive cost system, every element that enters into reasonable rates can be readily and promptly ascertained as an undisputed fact, without special inquiry, hearings, and conflicts of interest.

Question: How can the rate of return be brought under exact accounting control, along with the rate base and all other elements that enter into proper rates? Answer: Convert the indefinite and variable percentage to an exact cost equivalent that can be embodied in the accounts and records of the company. The policy has been for a commission to fix an over-all rate of return after having taken testimony in regard to the elements to be taken into account. Neither in the evidence nor in the findings did the commission have a definite number of subelements

<sup>2</sup> See "Depreciation in Relation to Prudent Investment," by John Bauer, PUBLIC UTILITIES FORTNIGHTLY, Vol. XXXIII, No. 9, p. 540, April 27, 1944.



**Q**"FROM the community and general industrial standpoint, the getting of effective regulation has high-ranking importance. If private utility organization under public control is to survive and perform reasonably its constructive function of furnishing essential and minimum-cost services for the variety of industrial and social uses, regulation must be transformed so that it can be regularly administered in accordance with exact showing of facts."

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to be considered, nor an exact weighting of the individual items. Just as in the determination of rate base, it had a welter of indefiniteness to be compounded into an exact percentage.

**T**HE various concepts or factors commonly considered, or formally recited, may be summarized as follows:

1. The rate of return that would be required to finance the company at the time of the rate inquiry, so as to furnish funds equal in amount to the rate base findings, under the company's actual operations and business standing. This corresponds generally with the theoretical reproduction cost less depreciation in the rate base determination.

2. The actual cost of money that the company has incurred for capital funds invested in the properties. This includes interest on bonds, dividends on preferred stock, and dividends on common stock; the first two are usually definite percentages, but the third is indefinite, so that the over-all is also indefinite.

3. The rate that would have to be paid by the company to finance prospective plant improvements, extensions, and additions. This is theoretical and would depend on the capital structure and financial position of the company.

4. The rate obtained by business concerns other than utilities, but with similar risks and financial standing as the company in question. The determination involves comparisons of relative business standing and of yields upon recognized capital values.

5. The return required so that the company will be able to meet its fixed charges, pay dividends on the capital stock outstanding, and be able to obtain the necessary funds for needed capital enlargements. This is similar to items 3 and 2.

**M**ERE recital of these individual concepts shows the indefiniteness and variability of the standard which the commission would be trying to apply. Its findings could not be predicated upon precise results and definite showing of facts. Struggling with a maze of uncertainties, it would naturally adopt a more or less standardized over-all percentage. While it would give formal recognition to the circumstances of the particular company, and receive the variety of evidence in the record, all subject to cross-examination, it would come to a rounded-out and largely standardized ratio. This would reflect to some vague extent the current money rates, but would not be predicated directly and definitely upon the actual cost of money to the particular company.

With such vaguenesses and factual uncertainties, the rates of return as widely accepted ranged around 8 per cent during the early 1920's, with some variation between the kinds of utilities and companies. Those with stable and expanding business might be allowed less, while those with greater business uncertainty obtained more, but 8 per cent was roughly the standard. Then during the 1920's current money rates declined, and by 1930 the usual official rate was found to be 7 per cent. By the middle 1930's, with the further drop in cost of money, 6.5 per cent was widely accepted, followed with 6 per cent by 1940. During the past two years, in some instances 5.5 per cent has been found reasonable.

This decline in percentages of return has been due, first, to the general fall in money rates, and, second, to closer consideration of actual cost of money



### Basis of Rate Making

*"...rate making as a whole must be predicated upon an exact system of cost accounting. A company should be entitled to total revenues equal to the total cost of service, and no more. Every cost factor should be subjected to exact accounting under continuous commission supervision. The total costs should add up readily at any time to determine the total revenues that should be paid by the consumers."*

to the particular company whose rates are under inquiry. In general, the regulatory trend has been toward the exact cost basis of rate control although, except for the Federal Power Commission, there has been at best only evasive affirmation. The New York commission has come nearest to avowal of comprehensive cost rate making, particularly in the latest Brooklyn Borough Gas Company Case.<sup>3</sup> Because of its trend significance, its cost showing will be summarized.

**F**IRST, the rate base was predicated on the original cost of the properties used in public service, less depreciation (p. 13), plus working capital, net total \$7,205,000 (p. 22). This was predicated on analyzed accounting figures. "No testimony was submitted by the company with respect to other elements of value . . ." (p. 16). The plant accounts had earlier been re-

written to reflect original cost (p. 10), and the depreciation reserve had been revised to equal the accrued depreciation (p. 15); subsequently the changes in plant and depreciation were currently recorded in the accounts, and the balances, after some adjustments, were taken directly for rate base purposes. Here is the best up-to-date state regulatory standard for future rate base determination.

**S**ECOND, the rate of return was also predicated generally upon cost, but not so definitely as the rate base. The commission presented in a bird's-eye view the changes that have taken place. "Conditions prevailing prior to 1930 that were used to justify rates of return of 6, 7, and 8 per cent on fair value no longer exist. Returns on investments generally have declined appreciably since that time; yields on grade 'A' bonds having decreased nearly 50 per cent between 1934-1935

<sup>3</sup> (1944) 56 PUR(NS) 1.

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	<i>Amount Outstanding</i>	<i>Interest and Dividends</i>
First mortgage bonds—4% .....	\$3,660,000	\$146,400
Serial notes—2.75% .....	293,000	8,058
Participating preferred stock—6% ..	1,500,000	90,000
Customers' deposits—4% .....	509,345	20,374
Common stock .....	1,000,000	70,000 (at 7%)
Total .....	\$6,962,345	\$334,832



and the present. In view of these changes it is apparent that in any consideration of this element the current cost of money to the utility involved is most important" (p. 50).

After reviewing the cost of money to the company, the commission approved a rate increase which was estimated to produce a net return of \$381,000 (p. 55). This comes to 5.29 per cent on the rate base of \$7,205,000. As to the cost of money, this was tabulated as outlined above (p. 50).

The average cost of funds was thus found to be 4.81 per cent on the total par values of \$6,962,345. This total, however, is less by \$242,655 than the rate base of \$7,205,000; the difference reflects the amount of surplus reinvested in the properties. The common stock equity in the rate base thus amounts to \$1,242,655, and the return above interest and preferred dividends is \$116,168, or about 9.3 per cent. While this exceeds the cost of money, it is predicated primarily upon cost considerations, and it certainly indicates the cost direction to which the commission is pointing.

**T**HE trend to take the actual cost of money as the return is in line with the general movement for strict regulation. Complete transformation

can now be attained under the Hope decision, if a commission decides to do so, and if it has legislative sanction. All that it needs to do is to give up the single loose over-all rate of return and to adopt a separate percentage, at actual cost or its fair equivalent, for each class of securities through which the company's capital funds have been obtained. In most instances it has to deal with three classes of securities: bonds, preferred stock, and common stock. It must consider each class separately, establish the reasonable cost of money accordingly, and subsequently hold to definite cost records.

The transformation for bonds and preferred stock is simple and easy. As the securities were issued, presumably the best available money rates were obtained by the company, and the actual cost would be shown by the records. For the bonds there would be the rate of interest, plus or minus amortization of discount or premium. For the preferred stock there would be the per cent dividend. The actual percentages would control, unless there had been excessive allowances due to favoritism or manipulation in the financing; initial inquiry and determination would be necessary.

Actual cost, fixed at free arm's-length bargaining, or the equiva-

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lent, would be the standard. In many instances, however, the actual percentages exceed materially the present money rates at which the bonds and preferred stock could be issued. Where there are provisions for refunding, there should be replacement at a lower available cost, and there has been extensive refunding in recent years, usually with substantial savings. At the present time a company with a stable and expanding business can refund its bonds at 3 per cent or less, and its preferred stock at 4 per cent or less, especially where the bonds do not exceed 50 per cent and the preferred stock 25 per cent of the rate base. The regulatory policy should be to require refinancing wherever a saving can be realized and passed on to the consumers through rate reductions.

While the shift to actual cost would be quite simple for bonds and preferred stock, it would require fundamental change in the position of the common stock and its assumed relation to the business. Despite the fact that a utility company has received general protection of the return to which it is entitled, its common stock continues to be regarded as basic risk taker, just as if it were that of an ordinary private concern which, in fact, is subject to competitive risks and may profit or lose greatly through operat-

ing and market contingencies. Utility common stock has intrinsically a different status. It has been relieved from such risk bearing as attaches to ordinary business. If rates can be fixed high enough to equal the total cost of service, it has no risk of loss, but it has commonly gained from the indefiniteness and uncertainties of rate control. Virtually its only risk has been the uncertainty as to the extent of the excessive return that it might obtain through the poorly functioning regulation, although sometimes, during periods of rapidly rising prices, there have been losses because of the contentions and slow-moving regulation.

**I**N shifting the common stock return to actual cost there are difficulties. First, there is usually no cost record. Second, the past returns actually obtained have entered into the market values and into the successive purchase prices paid by investors. Third, such market prices have involved relatively high money rates because of the lack of close regulation and the consequent uncertainty as to the actual returns that would be obtained.

In converting these past uncertainties to future definiteness and accounting control, common sense must be exercised. Fair consideration must be given both to investors and consumers,

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together with the requisites of community progress. After the conversion, the return allowed would be definite. The holders of common stock, just as those of bonds and preferred stock, would be systematically protected in getting the returns to which they are entitled. The only difference would be in the relative standing. Bond interest would still stand ahead of preferred dividends which, in turn, would have priority to the common dividends. But each amount would be an exact category, and all three would be included equally in the rate calculation. The company would receive sufficient revenues to cover all operating expenses, depreciation, taxes, interest, preferred dividends, and common dividends, plus such further charges as may be made and approved to meet all return requirements year by year.

WITH this transformation from indefiniteness to exactness, from uncertainty to certainty, reason must be used in fixing initially the rate of return allowed on the common stock equity in the rate base. The determination should, of course, be predicated upon comprehensive and detailed survey of the facts. To illustrate, assume a large electric system with a stable and expanding business, and with a rate base of \$100,000,000 as initially established for systematic regulation: \$50,000,000 covered by bonds at 3 per cent, \$25,000,000 by preferred stock at 4 per cent, and \$25,000,000 by the common stock. Now, what would be the fair rate of return that should be fixed for this common stock equity? Consideration should be given to the fact that the past uncertainties and variations will be replaced by a definite

percentage which will be regularly protected. Under these circumstances, 5 per cent might be deemed reasonable; perhaps a lower rate would be adequate. At any rate, a definite ratio should be established, one that is all-around fair to both private and public interests.

Whatever percentage may be found reasonable, it should be definitely fixed and its status clearly defined, so as to place it beyond future dispute. It should either be kept permanently at the particular rate, and all future common stock issues sold to investors accordingly, or definite provisions should be initially adopted for subsequent modifications. The simplest course would be to keep to the initial percentage, but readjustment might be desirable later when the results of the new regulation have been reflected in the market price of the stock, and in the current yield realized. This would doubtless be lower than could reasonably be fixed initially. If so, then appropriate reduction could be made, but the provisions for such later adjustment should be embodied in the initial transformation of the common stock's position.

SINCE presumably the par or book value of the common stock would usually exceed its rate base equity, recapitalization on the basis of the regulatory figures would be desirable, if it could be brought about through legal means. The capital structure should really conform to the official capital figures that enter into rate making. While such recapitalization would contravene present standards and practice, it would agree with the realities of definite returns to investors. It



### Costs or Losses Paid by Consumers

**"B**ESIDES the rate equalization reserve, other operating reserves should be established to meet costs or losses properly paid by the consumers. Thus the depreciation reserve would provide for the physical and functional decline of the plant items used in operation, and the annual accruals would be included in the operating costs. Like provisions might be made for casualties and contingencies not included under depreciation."

would correspond directly with the rate base, and the return would be computed at definite percentages on each class of securities outstanding. This would be the simplest arrangement if it can be legally effected, but definiteness of return can be attained even if there is no close harmony between capital structure and rate base.

To assure full protection of the investors and consumers without frequent changes in rates, special surplus or reserve provisions should be made. For example, there could be established a "rate equalization reserve," which would be credited for any year with the net earnings in excess of the total cost of service, and charged or debited with any deficiency. Initially the rates would be fixed high enough to cover the total cost of service and leave a moderate excess, which would then be added year by year to the reserve. The rates in general would not be changed

until the reserve had reached the maximum fixed by the commission, and then would be reduced so as to avoid further reserve increases. Conversely, if after the deduction of deficiencies for several years the balance of the reserve has reached the established minimum, rates would be increased. The reserve would not only furnish full assurance that the returns would actually be paid as expected, but would provide for minimum modification in the rate schedules and would equalize the minor shifts in the annual costs that must be paid by the consumers.

**B**ESIDES the rate equalization reserve, other operating reserves should be established to meet costs or losses properly paid by the consumers. Thus the depreciation reserve would provide for the physical and functional decline of the plant items used in operation, and the annual accruals would

## MORE PRECISION NEEDED IN UTILITY REGULATION

be included in the operating costs. Like provisions might be made for casualties and contingencies not included under depreciation. Any cost factor that must be paid by the consumers, but which varies materially from year to year, can best be met through annual reserve accruals. All such charges should be included in the operating costs and credited to the appropriate reserves, from which the actual payments would be deducted, and the balances at any time would reflect the amounts that the consumers have prepaid through past operating expenses. Naturally the assets retained in the business in support of the reserves would not be included in the rate base. Similar allowance could also be made for ordinary plant improvements and enlargements.

With transformation to definite returns, all the past difficulties of determination would disappear. The basic validity of all costs would be decided currently as they are entered in the accounts under commission supervision, and no question of propriety or reasonableness would be raised in connection with any rate surveys. At the close of every fiscal year, or any in-between period, a comprehensive cost and return analysis would be made for every company, and rate adjustments determined according to exact showing of facts. If the equalization reserve has reached the ceiling figure, rate schedules would be appropriately reduced, or conversely increased, without affecting the actual returns to investors to be distributed as interest on bonds, dividends on preferred stock, and dividends on common stock. Rate regulation would become regularly administrable, without conflicts of interest,

without quasi judicial hearings, without delays, and without regulatory frustration.

**E**STABLISHMENT of such a definite accounting system of rate control naturally raises important questions in regard to its effect upon the various groups or interests that are involved. How would it affect investors? The availability of capital funds? The management? The status of the companies? The cost of service and rates? And just how extensive and "radical" would be the transformation?

Take the last question first. While the transformation appears tremendous in scope, it applies basically, on the average, probably to not over 5 per cent of the total costs included in the over-all measure of rates. This palpably small item, the return on the common stock equity in the rate base, has been chiefly responsible for the difficulties that have rendered regulation largely impotent. All the other factors — operating expenses, depreciation, taxes, special reserve and other charges, interest on borrowed capital, and dividends on preferred stock—have been, or legally or practically could have been, taken directly from the accounts and records of a company for the fixing of over-all rates.

**O**NLY the return on common stock has been a strictly noncost category, but its course of determination in the over-all return has entrapped also the provisions for interest and preferred dividends in the obscurities and cross-purposes involved in the determination of "fair value" and "fair rate" of return. Indirectly it has

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brought also the annual allowance for depreciation into the "vaguemire" of procedure. Assume that roughly the total costs add up as follows to total rates:

Operating expenses .....	55%
Depreciation .....	5
Taxes .....	15
<hr/>	
Total costs prior to return .....	75%
Interest on bonds .....	13
Preferred dividends .....	7
<hr/>	
Total before return to common stock .....	95%
Return on common stock .....	5
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Total costs .....	100%

The 5 per cent for return on common stock can be easily figured as generally about right, with differences in individual cases. Operating expenses, depreciation, and taxes, 75 per cent of total costs, can all be subjected to definite accounting. Of the 25 per cent that goes for total returns, interest and preferred stock dividends are again actual cost elements—no more than cost can be paid. The balance of the return goes to the common stock, which normally would have no more than a 25 per cent equity in the rate base. This equity figures down approximately to 5 per cent of the total annual costs that enter into rates.

**W**HATEVER correction or adjustment may be made to this 5 per

cent magnitude, it remains a minor factor in the total rate calculation. But the grim irony has been that the small item has caused the large confusion. So, why not convert equitably the one noncost factor into an exact cost category, and subject all costs to definite accounting procedure? What is so overwhelming, so "radical," and "subversive," as to make obvious common sense unacceptable in the revision of policy in an extremely important sector of our economy?

Next, consider the effect upon investors. As already emphasized, bond and preferred stockholders are already restricted to definite contractual returns, despite their inclusion in the fair-value-fair-rate-of-return determinations. They would not be affected at all by the shift to definiteness, unless in some instances their total par value exceeds the total rate base. Since in fact they get an actual cost return, why not include them in a systematic cost structure of regulation?

In contrast to bonds and preferred stock, the holders of common stock would, of course, incur initial loss in every instance where they had obtained excessive yields under the clumsy regulatory régime. Their returns would naturally be reduced after full inquiry and factual findings, under exact



**Q**"IN establishing definite common stock returns, there would be no retroactive measure to take account of past excessive earnings, whether those were paid out as dividends or re-invested in plant additions. The rate base would be the prudent investment in existing properties, and the returns would be predicated on the existing securities in their relation to the rate base. Actual fairness would be the standard, but what is fair would be precise in concept and exact in amount as translated into rates paid by consumers."

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standards. But after the excesses have been stripped off, the allowed return would be exact and safeguarded just as bond interest and preferred dividends. The common stock would gain greatly in security, which, in turn, would result in lower percentage yields on market values than have prevailed under the regulatory uncertainties. When fair definiteness has once been established, common stock investors cannot possibly be injured by systematic regulation. They will know definitely what they are entitled to receive and what they will get.

**I**N establishing definite common stock returns, there would be no retroactive measure to take account of past excessive earnings, whether those were paid out as dividends or reinvested in plant additions. The rate base would be the prudent investment in existing properties, and the returns would be predicated on the existing securities in their relation to the rate base. Actual fairness, with equal applicability to consumers and investors, would be the standard, but what is fair would be precise in concept and exact in amount as translated into rates paid by consumers.

With precision and exactness as to returns allowed under the new regulation, would a company be able to get the capital funds as needed for plant improvements, extensions, and enlargements? The answer seems obvious. Naturally all new security issues would have to meet the market yield requirements, and each should have flexibility in form to meet varying market conditions. Bond issues at a fixed rate of interest would sell at par, or discount or premium, as the

nominal rate equals the market rate, or is less or greater. The same is true of preferred stock, and it applies also to the common stock if once its present indefinitenesses are superseded by exact returns, and it should be issuable at a discount as well as at a premium. With marketing flexibility in all the capital securities, and with the exactness and protection of the returns, a company could get all the new funds that will be needed. While the current market yields would have to be paid at each successive stage of issue, the high security would make the funds available at minimum cost to the company and, so, to the consumers and the public at large.

**W**HAT would be the effect of the transformation upon the management? The general corporate theory is that the common stockholders control the management and, for the purpose of profit, exert continuous pressure for efficiency and economy. If, then, the returns to the common stock are to be fixed and assured, would not the progressive control over management be largely eliminated?

In answer there is, first, the question of fact whether in the utility organization there has been the assumed relationship between the common stock and the management so as to press continuously for efficiency and economy. Since the companies are chiefly service monopolies and their earnings have been subject to limitation on a "fair return" basis, the common corporate theory does not apply, or has quite limited application. Furthermore, in the prevalent holding company systems, the common stock control normally rests with a small bank-

## PUBLIC UTILITIES FORTNIGHTLY

ing group which in result is normally less concerned with problems of operating efficiency than with some form of financial manipulation—often more in covering up costs and excess earnings, and in supporting high rates, than in pressing for economy. This kind of control has extensively diverted the management from its underlying public function of furnishing proper service at minimum cost, to the maintenance of high rates and of arrangements which benefit the controlling group as against the protection and advancement of public interest.

THE common stock has had a real interest in pressing for economy only when it was not obtaining an adequate return and could get an increase in rates, or would not gain from higher rates because of consequent decrease in the volume of business. While there are such instances, they are not common. Usually, because of rate-making ineffectiveness and gradual business expansion, and with advancing technology, the company has been getting excessive earnings, and the effort of the stock control has been to avoid rate reductions. This has been extensively true of electric companies. Managerial progress that has taken place has probably been due more to the professional instincts of the technical personnel than to the common stock urge for profits. No one who has lived long and close with utility regulation can have failed to observe the prevalent distortion of the profit motive in its impact on management.

What is really involved in this whole discussion is the needed readjustment in the relation of the common stock to the management. Ma-

nipulative and speculative control should, of course, be eliminated. Management should not be dominated by a publicly irresponsible and often predatory group which has little or no actual investment in the properties; it should not be diverted from its public function of furnishing essential service at minimum available cost and rates. The difference between utilities and ordinary competitive business should be explicitly recognized and embodied in the regulatory policy.

INASMUCH as the returns are necessarily limited, they should be definitely fixed and provided for. When this is accomplished, the common stock becomes merely one form of securities through which capital funds are obtained. While its nominal relation to management might not be altered, actual control would pass to the regulatory body. First, management itself would be released from exterior perversions and would be professionally free to manage; this in itself would be a tremendous gain for progress. Second, the commission would have positive regulatory objectives, and would exert continuous supervision so as to keep the management directed to its public duties. These would consist primarily of obtaining labor, materials, and capital at minimum cost to the consumers and the public at large, and making sure that all costs are actually paid.

The basic regulatory trouble in dealing with utilities has been the failure to carry through logically and realistically the distinctions that have been recognized in law and economics between natural monopoly corporations and ordinary private business. Experi-

## MORE PRECISION NEEDED IN UTILITY REGULATION

ence has amply demonstrated that if there is to be private utility organization under public regulation, the common stock must become merely another source of capital funds, with full protection of exact returns, without power to cause either an increase or a reduction in the amount of returns that can be obtained.

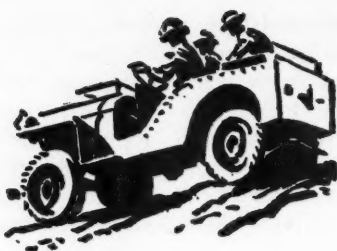
THIS is the situation that should be frankly faced in the utility industries. The common stock is in reality, or should be, converted to a preferred stock, and real control of management must pass to the regulatory body. This raises further issues that must be faced unevasively. Mere shifting to a definite rate base and exact returns does not furnish all the answers. Studies and experimentation will be necessary; improvements in regulatory techniques and procedure will be provided as tested out by experience. What does appear plain is that the prevalent relation between common stock and management must be superseded by something much better. Regulation cannot be made acceptable from the public standpoint as long as a sharp conflict of interest continues between the common stockholders and the consumers, and with management subjected to the common stock control.

Assume that the needed transformation has been attained; what is then the status of the public utility corporation? Frankly, while in form it remains a private concern, it has been converted to a *de facto* public corporation. Its responsibilities are to the consumers and the public at large: to furnish proper service at minimum cost. To all grades of investors, its

duty would be simply that of a debtor, the same as to labor and to sellers of equipment and supplies. Throughout it would assume definite obligations for wages, purchases, and for capital funds. Apart from these specific private commitments, its duty would be to serve the public as economically as possible under continuous and positive control of the regulatory body.

THE final question relates to the relative cost imposed upon the public and to the broad issue of *private versus public* organization of the utility industries. Because of the new definiteness and certainty of payment, the private rates of return paid for capital would be brought down close to the interest rates that would have to be paid under public ownership. Likewise in overheads and operating expenses, the differences between public and private operation would be materially reduced. In short, the total economic costs imposed upon consumers and the public might be brought down substantially to those incurred under outright public ownership.

What is clear is that the kind of past private ownership and regulation will be intolerable for the future, and will have to give way sooner or later. The regulatory proposal as outlined would involve a minimum of change in organization and management, and might get most of the economic advantages of direct public ownership. The two types of organization could be carried along side by side, and their relative superiority could be established through tested experience. The public interest should dominate, and divergence between private and public interest should be eliminated.



## An Engine That Runs on Air, Liquids, and Cheap Fuel

The author believes in the vast potential possibilities of a unique power plant installed in an automobile that may fit into the postwar transportation scheme.

By ROBERT M. HYATT

**M**ANY new products, devices, and techniques are being almost daily promised for public advantage in the postwar era. Some of these are revolutionary. The public, however, is not, because of that fact, as prone to look askance at them as it was in the days when the dream of a steamboat was branded as Fulton's folly. That does not mean that skepticism is never justified, but that surprisingly often is not. One cannot be too sure.

Here is something new which should be of special interest to utilities engaged in the transportation business, and perhaps to some others.

A few weeks ago, people on Los Angeles' streets were startled to see a strange car flitting about. It was not its appearance that startled, being nothing more prepossessing than a Model A Ford chassis with a seat on it.

What bowled everybody over, how-

ever, was the fact that the odd car made not the slightest sound at any speed, gave out no exhaust fumes or smoke, and in many other ways performed very much like a ghost car.

I had occasion to learn all about this car, and even to drive it. More important, I learned the vast potential possibilities of the unique power plant that drives it—and just where it may fit into the postwar transportation scheme.

The new car, known as the Perry-mobile—after its inventor, Frank R. Perry of Los Angeles—is most conspicuous by its lack of many gas car gadgets. For example, the Perry-mobile has no clutch, starter, carburetor, gearshift, spark plugs, ignition or cooling systems, transmission, and many other headaches of the internal combustion gasoline buggy.

The Perrymobile operates on a liquid and air, under boiler pressure of

## AN ENGINE THAT RUNS ON AIR, LIQUIDS, AND CHEAP FUEL

150 pounds. Perry's startling engine compares favorably in size with an average transmission. It is a 4-cylinder, V-type, L-head motor, hung under the floor boards. Weighing only 65 pounds, it nevertheless develops 30 horsepower and runs 60 miles on a gallon of stove oil or other low-grade fuel. At 40 miles an hour the engine turns over at only 800 revolutions a minute. Your car at that speed is turning up in the thousands of revs!

**T**HE power plant is in two units: the engine and the boiler, which occupy a small space under the hood. This boiler is composed of many feet of seamless steel tubing. Under it is the burner, which operates on such fuels as Diesel oil, kerosene, stove oil, or anything else that burns. There is no fire of ignition inside the engine. Therefore, no carbon can form; hence you never have to grind the valves, which are conventional gas car valves.

Since the motor functions at a top heat of about 200 degrees F., and the motor turns over very slowly even at high road speed, the crankcase oil doesn't break down, and you rarely change the oil.

The engine employs standard Ford A crankshaft, cut in half (or using only two throws), Ford connecting-rods, and Packard 115 pistons and rings.

Special cylinder heads and camshaft are used.

The crankcase and cylinder barrels are made of boiler plate and seamless tubing, both fabrication jobs a simple matter for a machinist.

The amazing thing about the Perry power plant is its utter lack of sound or vibration at any speed. The reason for

this smooth, quiet power is best described by saying that the engine is pressure driven, its pistons forced down by steady pressure instead of slammed down by a violent blow such as takes place in the conventional internal combustion engine. The power cycle is as follows:

**L**IQUID and air are taken into the boiler where they are vaporized and expanded under heat. When the throttle is "cracked," this mixture enters the cylinder heads, forces the pistons down, and the spent vapor is exhausted through port holes in the cylinder walls. This exhaust vapor is shot into the radiator (which is first sealed and made airtight) where it is condensed and changed again into liquid. It runs back to a tank under the floor (the exhaust air is dissipated into the atmosphere), and is again pumped into the boiler.

The liquid used in Perry's engine has been the subject of much discussion. It is one-half denatured alcohol, one-half distilled water, with an ounce of "Aerosol" or "Quickwet" to the gallon. The Aerosol acts as a homogenizer, keeping the alcohol and water thoroughly mixed at all times; otherwise the alcohol would evaporate quickly. The Aerosol also makes the alcohol noninflammable. The concoction costs about 40 cents a gallon to make and will drive the car 500 miles or more to the gallon.

**O**F course, water may be used in the system, but the mileage is not one-tenth that of the mixture, and the condensation efficiency of water falls far below that of alcohol and water combination.

## PUBLIC UTILITIES FORTNIGHTLY

THE compressed air taken into the boiler serves two purposes: It helps to break up the molecules of the liquid, allowing for more rapid vaporization; and under heat air expands one and a half times its volume. Thus, the expanded air in the boiler gives a bit of additional power. It also gives the Perrymobile instant starting in the morning. While you're waiting for the boiler pressure to build up (adequate operating pressure can be built in about a minute), you can drive the car about two blocks on the air stored in the tank. A compressor driven off the motor feeds the storage tank, which pops when 150 pounds are built up.

The entire Perry power plant weighs about 170 pounds and takes up one-third the space of a Model A Ford power plant. Its extreme lightness may indicate that the car of tomorrow will be anything but the heavy, lumbering creation of the present. Which would be no handicap. Extreme weight is not, as is popularly believed, essential for speed, power, or roadability. Take the tiny "midget" racers, which easily turn up over a hundred miles an hour, yet weigh only about 700 pounds. Many trucks use the same motor as pleasure cars.

Did you know that the average car, in the medium-priced class, never uses more than about 15 horsepower?

Then why all the enormous weight to carry around?

THE motivating force employed in Perry's engine, like steam, is power gradually applied, not a series of violent sledge-hammer blows as is the case in the internal combustion engine. It does not depend upon a series of gear shiftings, speed, and momentum for its power; its full 30 "horses" are working immediately at the start. One of Perry's tests is interesting and convincing: He drives up against a stone wall and leaves the throttle open a bit. The car stops, of course, but the rear drive wheels continue to revolve, the tire treads smoking and shredding on the pavement. Try this in your own car!

Driving the Perrymobile is a thrill. There is only one operation—moving a hand throttle under the steering wheel. Actually, there are two throttles under the wheel. One is the reversing medium, which merely shifts the camshaft (it has two sets of cams), reversing the engine. There is only one pedal in the floor—the brake. The engine is always in gear. When the car stops it stops. It is the only car in the world that stores power (air) while coasting.

As a power source for automobiles, Perry really has something, and many prominent engineers and industrialists



**Q** "THE Perrymobile operates on a liquid and air, under boiler pressure of 150 pounds. Perry's startling engine compares favorably in size with an average transmission. It is a 4-cylinder, V-type, L-head motor, hung under the floor boards. Weighing only 65 pounds, it nevertheless develops 30 horsepower and runs 60 miles on a gallon of stove oil or other low-grade fuel. At 40 miles an hour the engine turns over at only 800 revolutions a minute."

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have examined the machine and pronounced it sound and practical in every way. Included among these are H. V. Lindbergh, shipbuilder Kaiser's chief engineer. Kaiser himself looked it over and made Perry an offer. Similar offers have come from England, Mexico, and many persons in the United States. A wealthy boat builder in Texas wanted the marine rights. And for boat use the Perry engine is unrivaled. Quiet, vibrationless, it would convert noisy boating to a new thrill in power cruising.

As Perry says, in recommending the engine for fishing boats, "You can slip up on the fish without scaring 'em!"

**S**EVERAL motorbus and truck companies are looking at the new engine with a view toward adapting it to their needs. Really quiet busses would be something of an innovation in any city! The Los Angeles Motor Coach Co. is studying the possibilities of using the new engine in their many busses. The Divco Co., which furnishes special trucks for dairies and bakeries, is also considering the use of Perry's engine in its numerous vehicles.

As a motor for stationary use, such as for driving electric generators and farm lighting and power units, it stands by itself. Its economy of operation and maintenance is most appealing, and several California citrus growers are experimenting with it for pumping stations. Its total lack of noise is an interesting factor, too. Stationary gasoline engines are notorious for their objectionable thumping and banging.

A large Cleveland, Ohio, farm ma-

chinery company suggests another use for the power plant—powering small cultivators and even tractors. And Reo Motors have looked it over interestedly as an engine for trucks and cross-country busses.

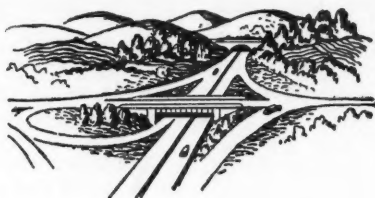
**A**IRCRAFT possibilities? While I know one young pilot who is installing one of the engines in an Aeronca 2-place plane, the aviation possibilities have had little consideration. North American and Lockheed engineers have examined the engine, without making much comment. There is little chance that the aviation industry will even consider changing forms of power while war still engages their output. After the war—who knows?

The question has often come up: How can only 150 pounds of pressure develop so much power?

The best answer is the fact that the average locomotive operates on about 180 pounds of steam pressure, yet it can, from a dead start, move millions of pounds of weight. That is because steam, like the expanded vapor used in Perry's engine, is gradual pressure and not a series of exploding blows on the piston heads.

In visualizing the Perrymobile, it should be remembered that the car is not driven on compressed air alone—air furnishes only part of the motive power. The vaporization and expansion of the quick-boiling liquid do most of the job.

Is the Perrymobile the "postwar" car? Let us say that it is at least one type of power that will be used in cars after the war. However, it is possible for one to own a Perrymobile now, since most of the engine is made of scrap or discarded materials to be



### Driving the Perrymobile

**“D**RIVING the Perrymobile is a thrill. There is only one operation—moving a hand throttle under the steering wheel. Actually, there are two throttles under the wheel. One is the reversing medium, which merely shifts the camshaft (it has two sets of cams), reversing the engine. There is only one pedal in the floor—the brake. The engine is always in gear. When the car stops it stops. It is the only car in the world that stores power (air) while coasting.”

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found in parts dealers' stores or junk yards.

**T**HERE is much speculation about the “postwar” car. At the moment it is a rather mythical vehicle. Ask any of the big gas car makers what's cooking and you'll get an evasive answer. One thing is pretty certain. The car you'll buy immediately after the war—and even for several years thereafter—won't differ much from the old jalopy you're nursing along now. With the possible exception of minor body and grille changes, and perhaps plastic components, there will be little difference. Gas car manufacturers will undoubtedly begin production where they left off when war's demands caused them to abandon auto making.

It is quite certain that the postwar car will be a gasoline user. And here is something to ponder: We may have

gas rationing for several years after peace has come. With gas allowances such as they are, and the threat of even tighter rationing to come, car users are eagerly receptive to a ration-free car, a car that ignores gasoline.

Perry has several ideas for a postwar car that employs plastics in frame and body construction. By using these mediums, and his light-weight power plant, a car—even a very large one—can be built that would still weigh under a thousand pounds and would run 50 or 60 miles on a gallon of low-grade fuel.

**S**INCE public interest blazed with the announcement of the Perrymobile, and crowds began forming around Perry's office every day, the inventor decided to give his car a public showing and to explain his unique plan for making the power plants available to those interested. To that end, he rented

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a large room in the Los Angeles Shrine auditorium, and placed the car on exhibition. It has been there for about two months, drawing several hundred persons each day at one dollar admission. There, too, Perry gives lectures on the workings of his brain child.

It should be noted that Perry has no plans for manufacturing the engines, nor will he sell any stock. He has hit upon a unique plan for making the power plant available to the public. He will sell anyone a set of blue prints for \$25 from which any good machinist or even auto mechanic may build the power plant with a small outlay of cash. Since the motor uses several standard auto parts, it is a simple matter to purchase these anywhere. All the builder needs is an old chassis—any kind—in which to install his new engine and boiler.

Since many persons do not care to bother with the actual building, or even know how, Perry has hired various machine shops to build the parts which he sells at low cost. The entire kit of parts may be purchased for about \$300. Any auto mechanic can assemble them and mount the finished product in a chassis.

**T**HERE are many people in America who would pay almost anything for a new car if they could get delivery tomorrow. There are millions who would be willing to pay \$300 or thereabouts for one—even if he did have to make it himself, or have it built. In substantiation of this, there are more than 500 persons actually working on Perry engines at this time—and the sale of blue prints at Perry's auto show mounts every day.

A few days after an Associated

Press newspaper article carried the announcement of the Perrymobile and the inventor's plan for selling blue prints, mail began pouring in. Some of the letters merely asked for more information; many of them contained checks for \$25. All this was before Perry had drawn up the plans he meant to sell. He put the money in escrow—nearly \$5,000 of it in a few days!

Perry's idea does not end with the sale of a set of prints. Accompanying the drawings are a list of special information and instructions and an invitation to write him in case the buyer runs into trouble. He stands back of the prints and wants to help everyone who buys them.

He is wide open to suggestions. He feels that after a few of the power plants have been built, many questions will arise and new developments present themselves. He is waiting for these things. He believes that his engine can be improved, and it is only after a number of them have been made that a general picture—bugs and their solution—will be apparent. People are bound to make changes in construction—changes for the better in many instances. Perry wants to know about these developments.

**T**HE idea for the liquid and air car came to Perry back in 1937, while he was engaged in perfecting a carbon-removing process for airplane motors. This process utilizes pulverized walnut shells. The abrasive, softer than steel but harder than carbon, is blown over the engine parts with a sand-blasting machine. The Army Air Forces recently went on record as saying that Perry's system is the biggest labor-saving device since the war. It has cut

## PUBLIC UTILITIES FORTNIGHTLY

the cost of cleaning an airplane engine from about \$21 to \$6.50, besides relieving many men for more important work.

For five years he worked quietly on his motor idea. So sound was it that his working model today is the original, with only slight alterations.

Perry is no novice when it comes to inventing things. Way back in 1903 he built what was referred to as the "smallest automobile in the world" in Sacramento. It ran, too. He has built and raced many cars and motorbikes. Between 1915 and 1930 he did re-

search work for Ford and General Motors. In 1915 he invented the first automatic fuel pump, and sold the patent to a Chicago manufacturer. This was during the era of vacuum tanks. Fuel pumps—exactly like Perry's first one—did not make their appearance on motor cars until about 1930.

Not content with building the most radical auto engine in many a day, Frank Perry is now engaged in designing a foolproof helicopter.

What kind of power will it use? Liquid and air, of course! Well, why not air power for an aircraft?

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### Singing Wires—A Sign of Spring

**"T**HERE is undoubtedly a learned scientific reason why telephone wires put on their orchestral performance. This is a scientific age and we cannot expect even a free symphony to occur without good reason. Perhaps the best performances of the year are given in late March. On a mellow day when the south wind is blowing, when the sky is wearing its cape of deepest blue, with a few masses of white cumulus clouds for ruffles, the wires seem to enjoy their steady song.

"The song of the wires is steady but it is not monotonous. There are overtones of lyrical runs, long-sustained notes in alto and contralto key, deeper intermittent overtones of resonant bass. Occasionally one gets a faint hint of a clean, haunting pure high tenor. There are times when the tempo mounts in crescendo fortissimo; one almost expects the crash of the percussion instruments and the stirring lifting power of the brasses. Then, again, the wires sing softly of day's loveliness, humming a theme of unexplored possibilities, sustaining the music to accompany the rollicking optimism of robins.

"There are men and women in city offices who will look out their windows these hope-stirring days and think of country roads far away where the telephone wires run from weathered pole to pole, above the lichened stone walls or split-rail fences. Years ago they listened to the singing wires. Boys and girls coming home from schoolhouses with lunch boxes in hand still stop to listen. In the song of wires in spring, youth has heard the call to paths of adventure."

—EDITORIAL STATEMENT,  
The New York Times.



## Wire and Wireless Communication

**T**HE executive board of Branch 101 of the Federation of Long Lines Telephone Workers, one of the two unions which threatened New York with a telephone strike, has agreed to accept the War Labor Board's original award of a \$3-a-week wage increase in return for concessions arranged on April 20th in Washington, it was learned recently when the details of the settlement were disclosed.

Effective for both unions, the concessions included a provision which would in effect give the 17,300 operators involved an average weekly increase of \$1 in addition to the \$3 awarded by the WLB, figures disclosed by Henry Mayer, counsel for Branch 101, indicated.

Major terms of the settlement agreed on in Washington, according to Mr. Mayer, were an increase in retroactive pay to operators with more than eight years of service and a shortening of operators' promotion schedules. The latter provision would raise the annual income of less experienced operators a total of about \$1,000,000 a year, Mr. Mayer said, asserting that this is within the Wage Stabilization Act. If the sum were to be distributed equally among all the workers, this would give each of them \$1 a week more or less, in addition to the WLB award of \$3.

Under a schedule previously approved by the WLB, a telephone operator advanced from a \$23 weekly minimum to \$37 in nine years. Before that the scale was \$20 to \$34 in twelve years. The annual increase of \$1,000,000 would result

from the latest agreement, providing from \$23 to \$37 in eight years, Mr. Mayer said.

As operators already making top pay would not benefit by the year's shortening in the promotion schedule, it was also agreed on April 20th that these top operators would receive the \$3 weekly increase retroactive to May 10, 1943, instead of June 10, 1944, the beginning of the retroactive period for the others, Mr. Mayer explained.

The membership of Branch 101 and the Traffic Employee's Association, the other union involved, must approve the terms before they can be accepted. If they agree, the settlement will go to the WLB for a formal decision.

**I**N Cincinnati, it was reported recently, both the local and long-distance operators and other employees were seeking a flat \$6-a-week increase. It was learned that the Long Lines employees held an all-day meeting early last month at which an effort was made to get a direct answer from the company to their demands. No such answer was forthcoming, however, it was reported, although it was rumored that the local company's employees had been offered a general increase of \$2 per week for those making under \$31 and \$1 per week for those making over \$31.

The executive committee of Branch 301, Federation of Long Lines Telephone Workers, was reported to have had a meeting with management on April 16th in an effort to iron out the demands,

## PUBLIC UTILITIES FORTNIGHTLY

but no decision was then announced.

Referring to the possibility of a "sympathy" strike if New York operators should strike, a local Long Lines spokesman said "we will stand together, and if one goes out we will all go out."

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**T**HE War Labor Board on April 21st directed the Ohio Bell Telephone Company to eliminate by June 1st the practice of employing transferee operators at the Dayton exchange on a salary-plus-expenses basis. This was the issue which precipitated a strike in Ohio last November and threatened for a few days to spread tie-ups to major eastern cities.

The WLB order requires increases of \$3 a week in the minimum wage and \$3.50 weekly in the maximum rates. The decision directly affects more than 5,000 operators in 169 exchanges throughout the Ohio Bell system. A provision in the WLB order, agreed to by the parties, is a reduction in the operators' progression schedules from ten years to eight years.

The Ohio localities are grouped under eight wage schedules. Under the board's order the lowest schedule will range from \$20 to \$27.50 a week and the highest from \$24 to \$35.50. Under the new progression schedule operators will be eligible to receive the top rate after eight years instead of ten years.

In eliminating the transferee practice, the board directed the union to cooperate with the company and said that if future conditions required the transfer of operators to Dayton for other than temporary purposes, the term and conditions of such transfers should be matters for bargaining. The question of what constitutes a "temporary purpose" was ruled by the WLB to be a proper subject for bargaining. Industry members of the board dissented from this ruling.

In the event the company needed more time to remove the transferees, the board provided that a request for an extension should be filed with the board not later than May 15th. Labor members dissented on that point.

The company now has fewer than one hundred operators who were brought

into Dayton from other exchanges to handle the increased work load in that war production center. Originally there were 225 transferees.

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**T**HE National War Labor Board last month also announced that it had granted voluntary applications for approval of a weekly wage increase of \$1.50 to bring the salaries of approximately 16,000 employees of the New England Telephone & Telegraph Company up to the limits allowed by the Little Steel formula. The increases are to be retroactive to January 11, 1944, the date agreed upon by the unions representing the employees and the company.

The employees were represented by the New England Federation of Telephone Operators, independent, acting on behalf of 12,000 workers in the traffic department, and the General Council of Revenue Accounting Associations, independent, representing approximately 1,250 employees in the accounting department. Some 2,750 clerical and traffic department employees were not represented by a union.

Wage increases of \$1.50 a week had previously been approved by the board for 5,200 employees in the company's plant department. In that case the board determined that, on the basis of a company-wide computation of the Little Steel formula, a weekly wage increase of \$1.50 was due all 22,600 employees of the company.

The board followed the recommendations of its National Telephone Panel.

The company, a subsidiary of the American Telephone and Telegraph Company, furnishes telephone service throughout Maine, New Hampshire, Vermont, Massachusetts, and Rhode Island.

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**M**OTIONS for rehearing of the Missouri valuation case of the Southwestern Bell Telephone Company, by the cities of St. Louis and Kansas City, and the Office of Price Administration, were overruled last month by the Missouri

## WIRE AND WIRELESS COMMUNICATION

Public Service Commission, which terminated the eight-year-old case last March 5th without fixing a final rate-making valuation for the company's property.

In its order denying the motions, the commission did not discuss the various arguments advanced for reopening and rehearing the case. It said it had considered all of the statements and reasons and felt that each of them should be overruled.

Kansas City and St. Louis requested the commission to extend its order to fix rates for telephone service in Missouri, and the Federal agencies (OPA and OES) sought to exclude "war-induced income and excess profit taxes" from operating costs on the theory such a practice would be inflationary.

\* \* \* \*

**T**HE National Labor Relations Board moved in New York city last month to compel the National Broadcasting Company and the American Broadcasting Company, Inc., to abandon a position both had taken because of unwillingness to antagonize James C. Petrillo's American Federation of Musicians.

The NLRB petitioned the United States Circuit Court of Appeals to issue an enforcement order upholding an NLRB order issued on March 31st requiring the radio chains to recognize the National Association of Broadcast Engineers and Technicians as bargaining agent for certain employees, including "platter turners" who operate phonographic apparatus in the studios. But Mr. Petrillo's union claimed jurisdiction over the same employees, and rather than offend this group, the broadcasters refused to deal with the NABET.

\* \* \* \*

**S**ENATOR Ernest W. McFarland, Democrat of Arizona, last month said it was "obvious" that there must be restrictions on postwar international operations by American communications companies. Senator McFarland, a member of the Senate Interstate Commerce subcommittee which is studying international com-

munications, said evidence presented so far indicated an insufficient number of frequencies for unrestricted competition.

He said he had not decided whether he favored a single, unified corporation, such as proposed by the Navy, but, he added, it "seems obvious" that private companies cannot be allowed to compete on an unrestricted basis "if we are to have the international communications system that will be needed in the post-war world."

Three proposals have been presented to the committee by the Navy, War, and State departments, causing considerable committee criticism because of the apparent lack of unified planning by the government.

The first plan, offered by the Navy, would establish a total, mandatory merger of all overseas communications services under a privately owned, government-controlled corporation. The Army plan would result in a voluntary, partial measure with no direct government intervention but with certain legislative restrictions approved by Congress for the general operation of overseas communications. Press wireless would not necessarily be included. The State Department proposed a hands-off attitude by government, with no merger of any kind and very little control.

\* \* \* \*

**T**HE Debs Memorial Fund, Inc., operator of radio station WEVD, is a nonprofit organization entitled to exemption from Federal excess profit taxes, according to a decision handed down last month in the United States Circuit Court of Appeals. Judge Harrie B. Chase dissented from the opinion of Judge Thomas W. Swan and Jerome N. Frank, which reversed a ruling by the United States Tax Court.

The tax authorities had held that because a substantial part of the WEVD time was devoted to commercial broadcasts for which fees were charged, it was not entitled to exemption. But the appellate court found that this partial commercialization should not deprive it of the tax benefit, since the commercial

## PUBLIC UTILITIES FORTNIGHTLY

broadcasting raised funds to support its "educational and cultural programs."

\* \* \* \*

**W**ARREN LEE PIERSON, who resigned recently as president of the Export-Import Bank to become president of the American Cable & Radio Corporation, announced last month that the Mackay Radio and the Commercial Cable Company had applied to the Federal Communications Commission for permission to put into effect a new cable and radiotelegraph rate schedule based on a full rate charge of 20 cents a word from New York to all countries in Europe that agree to the proposal. The companies also recommended that a similar reduction be made from European points to New York.

American Cable & Radio, Mackay Radio, and Commercial Cable are affiliates of the International Telephone & Telegraph Corporation system.

Mr. Pierson said this action would set up a new principle and result in a substantial reduction from the present ordinary rates, which range as high as 36 cents a word. This would be the first major reduction in the European rate structure since 1919. The new rate structure also would provide some cuts in press rates, but the precise amounts of these could not be calculated, Mr. Pierson added.

The proposed new rate structure, Mr. Pierson said, was based on the belief that it was unsound to have varying rates for nations in the same general geographical area, and that all of Europe should be served from the U. S. at one rate.

\* \* \* \*

**T**HE WPB Communications Division Industry Advisory Committee met in Washington last month to study plans for releasing or continuing WPB restrictions after VE-Day has been proclaimed. No formal announcement of the proceedings was made, these sessions being executive and advisory in character. It was understood, however, that the committee was advised of the following WPB program:

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1. Resumption of manufacture of telephone equipment, especially telephone sets, amounting to 1,320,000 for the coming 12-month period. This amounts to about 330,000 sets per quarter, as compared with 200,000 sets authorized by the current WPB production program, expiring in June.

2. Dropping of plans for "recapture" of extension sets.

3. Liberalization of certain WPB orders affecting plant construction and operation. WPB orders such as U-8 may not be actually repealed, but their restrictive effect may not be felt eventually as the supply situation eases.

The committee was addressed by Edward Falck, director of the Office of War Utilities, who discussed WPB plans for the communications industry after VE-Day and VJ-Day. The committee also heard Leighton H. Peebles, director of the WPB Communications Division, who told about the recent action of the WPB Requirements Committee with respect to authorizing increases in telephone production along lines mentioned above.

\* \* \* \*

**T**HE New York, New Haven & Hartford Railroad Company successfully demonstrated last month short-wave radio communication aboard a regular scheduled 100-car freight train from New Haven to Danbury, Connecticut, a route which is said to present the most numerous and severe difficulties for such a demonstration.

The New Haven is the first railroad in New England to experiment with 3-way radio contact. In cooperation with the Westinghouse Electric & Manufacturing Company, the road, since last September, has conducted constant tests of radio communication between both ends of the train and stationary wayside points.

Officials of the road said the principal advantage of 3-way voice communication was in aiding and simplifying routine execution of train orders, including saving time in train movements and increasing the efficiency of equipment and train crews.

# Financial News and Comment

By OWEN ELY



## *A Review of SEC Progress in "Breaking Up" Utility Holding Company Systems*

CONSIDERING the amount of administrative effort put forth in the past decade by the SEC, progress in "liquidating" the utility holding company systems must have proved disappointingly slow. While exact results are difficult to obtain, the table on page 630 tabulates the principal holding companies' assets (in millions) for 1929, 1935 (when the SEC came into being), and 1944 (or 1943 if a balance sheet for last December is not yet available).

Total assets of all electric utility companies in 1942 were about \$18,000,000,000 and probably increased only slightly in 1943-4. On this basis holding companies would apparently control about two-thirds of our electric system. But the ratio would be smaller if gas, transit, water, and miscellaneous services were either eliminated from the holding company total, or added to the aggregate for all electric companies. Allowing for this factor, holding companies on an over-all basis probably do not control more than half the total assets of our utilities.

Despite the huge increase in output and capacity of the private electric power and light utilities, stated assets have increased only moderately in the past decade. Capital expenditures for the electric industry aggregated some \$4,200,000,000, but in the balance sheets much of this gain in plant account has been offset by increased depreciation reserves and write-offs of plant account. In 1942 total class A and B electric utilities reported total assets of slightly over \$18,000,000,000 compared with \$16,873,000,000 in 1937 and a total for all

electric utilities of a little over \$17,000,000,000 in 1932. Thus, there has been a gain of only about \$1,000,000,000 in the past decade. On the other hand, the holding company total (as here compiled) has dropped from \$13,929,000,000 to \$12,303,000,000 (latest available). Allowing for growth proportionate to that of all electric utilities (about 6 per cent during the decade) the holding company total for 1944 should have approximated \$14,800,000,000. The total here compiled, \$12,303,000,000, therefore seems to indicate that the holding companies have been deflated by something less than one-quarter. But the fact that plant write-offs have probably been largely concentrated in holding company subsidiaries may throw this estimate somewhat out of line.

The figures suffice, however, to give a broad picture of the trend. Turning to the table, we find that the huge Electric Bond and Share system, comprising about one-quarter of all holding company systems, has shown very little net change since 1929. Some fairly substantial write-offs have been taken by certain subsidiaries, such as Utah Power & Light, but the five large subholding company systems remain almost intact. Electric Power & Light sold Idaho Power, National Power & Light disposed of Houston Lighting by exchange and sale, and a few smaller companies have been eliminated. But the system as a whole is about as big as it was ten years ago, despite the fact that the Federal agencies have concentrated some of their best efforts on the elimination of "inflationary" items in the EB&S portfolio.

THE American & Foreign Power set-up is unlikely to change substan-

## PUBLIC UTILITIES FORTNIGHTLY

tially unless the present Chilean government forces Foreign Power to give up some of its holdings in that country. The SEC has no jurisdiction over the foreign subsidiaries. However, the present recap plan for the parent company might result in balance sheet write-offs.

American Power & Light will probably have to dispose of a number of its scattered interests, unless realignments can be made within the Electric Bond system. Electric Power & Light may give up United Gas. National Power & Light may be completely liquidated in the near-term future, through distribution of its holdings to stockhold-

ers. American Gas & Electric will doubtless dispose of two outlying properties, Scranton and Atlantic City, probably by sale. Electric Bond and Share itself will probably dispose of the major part of its domestic holdings, possibly merging with American & Foreign Power and operating as a combined service company and investment trust.

Cities Service Power & Light Company's assets dropped about 16 per cent during 1935-43 and in the next year or so will show a further rapid decline, since only the two big Ohio companies will be finally retained.

Niagara Hudson Power shows little



**DECLINE IN ASSETS OF LEADING HOLDING COMPANY SYSTEMS SINCE 1929**  
Consolidated System Balance Sheets (Millions of Dollars)

	1929	1935	1944	Change 1929-1944
Electric Bond and Share Group				
American & Foreign Power .....	\$756	\$751	\$723	D4%
American Power & Light .....	754	796	882	17
Electric Power & Light .....	840*	684	642(b)	D24
National Power & Light .....	575*	587	489(b)	D15
American Gas & Electric .....	445	468	623	40
<b>Total EB&amp;S systems .....</b>	<b>\$3,370</b>	<b>\$3,286</b>	<b>\$3,359</b>	<b>..</b>
Cities Service Power & Light .....	337	439	359(b)	7%
Niagara Hudson Power .....	757	648	642	D15
Commonwealth & Southern .....	1,134	1,174	1,202(b)	6
Standard Gas & Electric .....	1,091	1,192	687(b)	D37
Columbia Gas & Electric .....	671	704	687	2
Utilities Power & Light (Ogden Corp.) .....	402	405	18(e)	D95
United Light & Power .....	557	597	571(f)	3
American Water Works .....	408	434	447	9
Engineers Public Service .....	338	364	308	D9
North American Co. ....	533	878	869	63
Middle West Corp.** .....	624(a)	444(d)	464(b)	D26
Consolidated Electric & Gas .....	202(c)	152	102(b)	D49
New England Gas & Electric .....	109	109	108(b)	D1
Public Service Corp. of N. J. ....	635	694	756	19
United Gas Improvement .....	802	813	152	D81
Associated Gas & Electric Co. ....	900	1,017	961(g)	7
International Hydro-Electric .....	581	579	611(b)	5
<b>Totals .....</b>	<b>\$13,451</b>	<b>\$13,929</b>	<b>\$12,303</b>	<b>D8%</b>

D—Decrease.

\*1930.

\*\*Formerly Middle West Utilities Company.

(a) Receivers' balance sheet, 1932.

(b) 1943.

(c) 1932 (incorporated in that year).

(d) 1936.

(e) No consolidated balance sheet available; company balance sheet showed assets of \$18,000,000 in 1943; recent sale of Laclede Gas will further reduce the figure.

(f) United Light & Railways, 1943.

(g) Associated Gas & Electric Corporation, 1943.

## FINANCIAL NEWS AND COMMENT

change over the decade, but it seems probable that about half the system, controlled by the subholding company, Buffalo, Niagara & Eastern, may have to be sloughed off in the next year or so. (Niagara will retain a substantial block of voting stock in "Bernie," but this will probably be distributed to its own stockholders.)

Commonwealth & Southern shows a slight increase in size over the decade despite some substantial write-offs. There has been no important change in the general setup except for the sale of the Tennessee properties to TVA. If and when the company's plan is approved by the SEC and confirmed by the Federal courts, however, the size of the system may shrink about three-quarters, since only the southern group of properties will be kept intact. Actually the company's stockholders will retain (for the time being at least) control of the northern group, but this will not show up in the company's balance sheet.

**S**TANDARD GAS & ELECTRIC has shrunk about 43 per cent during the past decade and will again be cut nearly in half when the integration plan (approved by the SEC but questioned by a Federal court) is consummated, leaving only the Philadelphia Company subsystem.

Columbia Gas & Electric has been quite stable over the past decade, with only a slight shrinkage in assets. The present integration plan is not very far advanced; but, if the electric properties are disposed of and the gas utilities retained, assets may be cut by some \$200,000,000. Some miscellaneous assets may also be disposed of.

Utilities Power & Light (now Ogden Corporation) has been quite substantially liquidated, the recent sale of Laclede Gas disposing of a major part of remaining assets. However, much of this liquidation occurred before the SEC came into the picture. The company, which was doubtless inflated during the 1920's, became a football for contending interests and finally came under control of Atlas Corporation in

1935. The latter company pursued a policy of liquidating the debt-ridden holding company's portfolio, and finally created Ogden Corporation in 1939 to take over the remains of the system, which had gone through bankruptcy. Much of the system shrinkage was therefore due either to bankruptcy or the semivoluntary program of Atlas.

United Light & Power is about to pass out of existence as a name. It is now only a shell, United Light & Railways retaining all the system assets. There has been no important liquidation of holdings, except for the sale of San Antonio Public Service by American Light & Traction. The system has taken on some small new properties, and American Light & Traction is now trying to build a big pipe line, instead of winding up its affairs as a subholding company.

American Water Works, first of the holding companies to present a plan to the SEC, has remained unscathed thus far, although the plan remains unconsummated except for minor details.

**E**NGINEERS PUBLIC SERVICE has sold some of its smaller, outlying properties, but recently acquired the important Virginia Public Service from the Associated system. Eventually it may have to sell the properties outside Virginia — somewhat less than half of the present system.

North American Company has remained quite stable during the decade just passed. The plan of integration presented to the SEC a year and a half ago remains buried in the commission's files. Recently it was reported that the company might sell part of its Pacific Gas holdings and retire the 6 per cent preferred stock. The Supreme Court has now gotten around to hearing the North American appeal and other utility litigation, which had been tied up for want of a quorum because several judges had "disqualified" themselves. Perhaps this will expedite settlement of the North American plan. The company should be able to retain at least one-third of its present size (Union Electric of Missouri) if it wishes to.

## PUBLIC UTILITIES FORTNIGHTLY

Middle West Corporation completed much of its liquidation while in the bankruptcy courts, before it came under SEC jurisdiction in 1935. However, the company is now planning to sell or distribute to stockholders a substantial part of its portfolio, due to geographical requirements of the Holding Company Act.

Consolidated Electric & Gas has sold Central Illinois Electric & Gas and a number of smaller properties; it may have to liquidate most of its domestic holdings to retire bonded debt, but might eventually retain important foreign interests in the Philippines, Majorca (an island in the Mediterranean), Santo Domingo, and Haiti.

New England Gas & Electric has changed its setup very little, but will probably dispose of six utilities outside of Massachusetts with a possible value around \$6,000,000. It will have to recapitalize, however, to reduce burdensome debt.

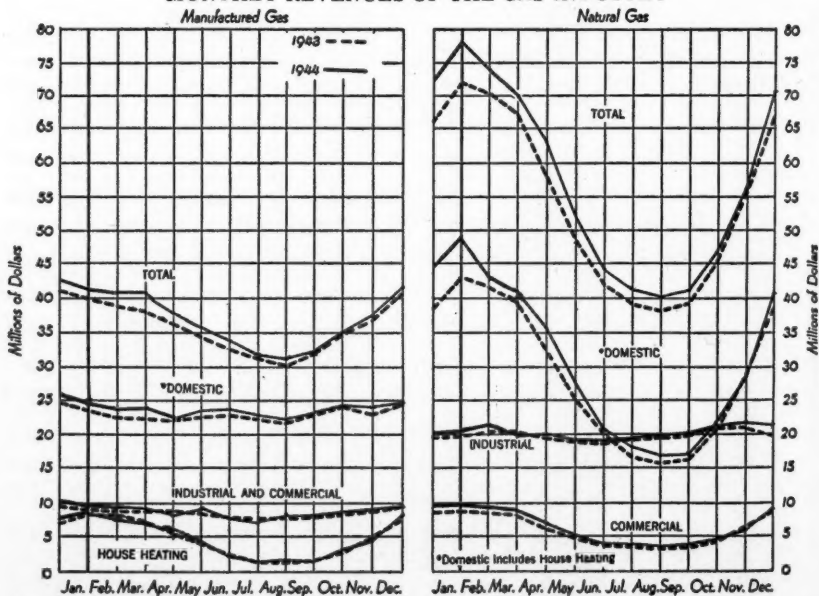
Public Service of New Jersey does not

need to dispose of any of its interests but might have to merge the holding company with the electric subsidiary and recapitalize, following settlement of write-off problems.

**UNITED GAS IMPROVEMENT** has distributed to stockholders a very substantial part of its holdings (not sufficiently integrated to retain). It has co-operated fully with the SEC, but the management now wants to continue as an investment trust or limited holding company; some remaining investments may have to be sold.

Associated Gas & Electric, one of the inflated systems, has been in bankruptcy for several years and the trustees have sold a number of properties. The trustees and the court are co-operating with the SEC to consummate a plan of reorganization. Eventually, outlying properties will be sold or distributed, but a very substantial part of the system can probably continue in existence.

### MONTHLY REVENUES OF THE GAS INDUSTRY



Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec.  
American Gas Association  
**MAY 10, 1945**

## FINANCIAL NEWS AND COMMENT

International Hydro-Electric has apparently increased in size during the decade, but must eventually distribute a large part of its assets to bondholders. Its subholding company, New England Power Association, can probably continue to retain most of its present interests, though subholding companies will be eliminated under a plan now before the SEC.

Summarizing, the holding companies have made relatively small progress thus far toward conforming to SEC objectives, but much greater results may be expected over the next two or three years. Eventually, instead of controlling half of the national system of private utilities, they will probably retain about one-quarter to one-third. This is on the assumption that the present statute, as interpreted by the SEC, remains in effect.

### Natural Gas Companies

DURING the approximate three months' period since our table on natural gas stocks was last published, the group has enjoyed a good advance. For example, Oklahoma Natural Gas has gained about 13 per cent, Consolidated Natural Gas 12 per cent, Pacific Lighting 11 per cent, Peoples Gas 9 per cent,

etc. Two new issues have been added to our list, Montana-Dakota Utilities (on the Curb) and Laclede Gas Light (new) on the Exchange. While the latter has not yet declared a dividend, it appears likely that it may pay in the neighborhood of 25-30 cents annually.

Another stock will become available around May 10th when Mobile Gas Service will be offered by the banking group making the successful bid for the 100,000 shares now owned by Consolidated Electric & Gas. Adjusted earnings for 1944 are estimated at \$1.37 a share, after allowance for a full year's application of a substantial rate cut made in 1944. The city of Mobile has doubled its population in the last few years, and some of this influx may be lost after the war, but the company's management appears confident that new industries can be attracted to Mobile to replace whatever loss may occur during reconversion. Local industries include reduction of aluminum ore (bauxite) brought in from South America, paper, shipbuilding, etc. The company is now paying a huge excess profits tax which should help to take up the slack of postwar readjustments.

Montana-Dakota Utilities recently completed some bond refunding and on a *pro forma* basis share earnings would be increased to around 66 cents a share, it is estimated.

### NATURAL GAS AND MIXED GAS UTILITY COMPANIES

	Where Traded	Price About	12 Mos. Ended	Earnings	Price-Earn. Ratio	Div. Rate	Yield About	Approx. Range 1944-5
Oklahoma Nat. Gas	C	34	Jan.	\$3.16	10.8	\$2.00	5.9%	35-19
Consolidated Nat. Gas	S	37	Dec.	2.80	13.3	2.00	5.4	37-24
National Fuel Gas	C	12	Dec.	.81	14.8	.80	6.7	12-11
Lone Star Gas	C	12	Dec.	.90	13.4	.70	5.9	13-8
El Paso Nat. Gas	S	37	Dec.	3.58	10.4	2.40	6.5	38-28
Pacific Lighting	S	53	Dec.	3.31	16.0	3.00	5.7	53-40
So. Natural Gas	S	20	Dec.	1.85	10.9	1.25	6.3	20-13
Northern Nat. Gas	O	38	Dec.	3.71	10.3	2.15	5.7	39-28
American Lt. & Traction	C	21	Dec.	1.40	15.0	1.20	5.7	21-16
Peoples Gas	S	76	Dec.	4.67	16.3	4.00	5.3	78-55
Washington Gas Light	S	27	Jan.	2.05	13.2	1.50	5.6	27-22
Montana-Dakota Utilities	C	11	Dec.	.60	18.4	.60	5.5	11-10
Laclede Gas Light	S	5	Dec.	.37*	13.5	**	**	7-5
Averages					13.6		5.85%	

S—New York Stock Exchange. C—Curb. O—Over counter. \*After adjustment for additional maintenance required by bond indenture. \*\*Initial dividend on new stock not yet declared.

# PUBLIC UTILITIES FORTNIGHTLY

## INTERIM EARNINGS REPORTS

		12-month Period			3-month Period		
	End of Period	Last	Prev.	Inc. %	Last	Prev.	Inc. %
<i>Electric-gas Holding Companies</i>							
American Gas & Elec. Consol. ....	Feb.	\$2.38	\$2.22	7%	..	..	..
American Power & Lt. (pfd.) Consol. ....	Nov.	7.75	8.94	D13	..	..	..
American Water Works Consol. ....	Dec.	.69*	.61*	13	..	..	..
Parent Co. ....	Sept.	.13	.16	D19	..	..	..
Columbia G. & E. Consol. ....	Dec.	.59	.63	D6	..	..	..
Com. & Southern (pfd.) Consol. ....	Mar.	8.00	8.11	D1	\$2.58	\$2.26	14%
Elec. Bond & Share (pfd.) Parent Co. ....	Dec.	4.30	4.55	D5	..	..	..
Elec. Pr. & Lt. (1st pfd.) Consol. ....	Nov.	9.98	10.32	D3	..	..	..
Eng. Pub. Service Consol. ....	Jan.	2.70*	1.76	53	..	..	..
Parent Co. ....	Jan.	.69	.69	..	..	..	..
Federal Lt. & Trac. Consol. ....	Dec.	1.41	1.86	D24	..	..	..
Middle West Corp. Consol. ....	Sept.	.94(b)	.98(b)	D4	.35	.40	D13
Nat. Pr. & Lt. Consol. ....	Nov.	.74	.80	D7	..	..	..
Niagara Hudson Pr. (pfd.) Consol. ..	Dec.	14.20	14.74	D4	..	..	..
North American Co. Consol. ....	Dec.	1.69	1.85	D8	..	..	..
Parent Co. ....	Dec.	1.32	1.28	3	..	..	..
Public Ser. Corp. of N. J. Consol. ....	Dec.	1.06	1.10	D4	..	..	..
Std. Gas & Elec. (pr. pfd.) Consol. ....	Dec.	10.34	12.11	D15	..	..	..
United Gas Improvement Consol. ....	Dec.	.56	..	..	..	..	..
Parent Co. ....	Dec.	.38	..	..	..	..	..
United Lt. & Rys. Consol. ....	Sept.	1.45	1.69	D15	..	..	..
<i>Electric-gas Operating Companies</i>							
Boston Edison ....	Dec.	2.11	2.19	D4	..	..	..
Central Illinois E. & G. ....	Dec.	2.05	2.33	D12	..	..	..
Central Vermont P. S. ....	Dec.	1.59	1.67	D5	..	..	..
Commonwealth Edison Consol. ....	Dec.	1.78	1.76	1	..	..	..
Conn. Lt. & Power ....	Feb.	2.70	2.53	7	..	..	..
Cons. Edison N. Y. Consol. ....	Dec.	1.70	1.70	..	..	..	..
Parent Co. ....	Dec.	1.63	1.65	D1	..	..	..
Cons. Gas of Balto. Consol. ....	Feb.	4.43	4.29	4	..	..	..
Delaware Power & Light Consol. ....	Dec.	1.18	1.00	18	..	..	..
Detroit Edison Consol. ....	Mar.	.81(c)	1.42(c)	D63	..	..	..
Houston Lighting & Power ....	Feb.	5.11	5.04	1	..	..	..
Idaho Power ....	Mar.	2.42	2.03	20	..	..	..
Indianapolis P. & L. Consol. ....	Dec.	1.88	1.87	..	..	..	..
Pacific Gas & Elec. Consol. ....	Dec.	2.18	2.23	D2	..	..	..
Philadelphia Electric ....	Dec.	1.50	1.37	10	..	..	..
Public Service of Indiana ....	Feb.	1.98	1.88	5	..	..	..
San Diego Gas & Elec. ....	Dec.	.91	.96	D5	..	..	..
Southern California Edison Consol. ....	Dec.	1.67	1.44	16	..	..	..
<i>Gas Companies</i>							
Amer. Lt. & Trac. Consol. ....	Dec.	1.40	1.35	3	..	..	..
Brooklyn Union Gas ....	Dec.	2.73(d)	2.29	20	..	..	..
Consolidated Natural Gas ....	Dec.	2.80	3.34	D16	..	..	..
El Paso Natural Gas Consol. ....	Dec.	3.58	3.49	3	..	..	..
Lone Star Gas Consol. ....	Dec.	.90	.77	17	..	..	..
Oklahoma Natural Gas ....	Jan.	3.19	3.43	D7	..	..	..
Pacific Lighting Consol. ....	Dec.	3.31	3.21	3	..	..	..
Peoples Gas Lt. & Coke Consol. ....	Dec.	4.67*	5.62*	D17	..	..	..
Southern Natural Gas Consol. ....	Dec.	1.85	1.84	..	..	..	..
United Gas Corp. Consol. ....	Nov.	.74(a)	..	..	..	..	..
Washington Gas Light ....	Feb.	2.37	2.14	11	..	..	..

\*Including 50-cent credit due to accelerated plant amortization. D—Deficit or decrease. E—Estimated. (a) Estimated *pro forma* earnings on new common stock (before sinking fund). (b) Nine months ended September 30th. (c) Decrease due to refunds to customers ordered by public service commission of Michigan. (d) In the first two months of 1945, 54 cents a share was earned, about the same as last year.



# What Others Think

## Annual Reports Make Instructive Reading



**A**NNUAL reports of business-managed utility companies come to hand at this season of the year, and in reading them one is impressed not only that there is much, aside from the customary financial statements, to tell stockholders, but that many companies are presenting a variety of informative facts relating to their affairs, in a most readable and instructive manner. This is a step in line with a move in recent years on the part of leading industrial concerns and banks to report their operations in more explanatory detail than in the past, so as to better enlighten the general reader.

This innovation on the part of the utility companies seems a constructive one. Whatever has prompted it, the conclusion is evident—the recital in an annual report of a variety of matters which have a direct bearing upon the fundamentals in the utility industry under business management is one means, and an excellent one, of educating people upon certain phases of this business regarding which many have been too little informed.

**I**N a score of these reports it is significant that almost without exception attention is called to certain identical aspects of their operations, which might apply to other companies as well. Below are noted the principal points upon which emphasis was generally placed:

- Service to war industries the foremost consideration
- No "rationing" of electric power
- Civilian services maintained
- Customers aided in repair of appliances—no new ones being made
- Preparedness—ample capacity assured, no power shortage
- Value of advance planning shown

- Increased sales, but decreased earnings
- Wages, fuel, and taxes mount
- Taxes—Federal levies increase greatly
- Graphic charts compare taxes with dividends, wages, etc.
- Business-managed, tax-paying utilities contrasted with governmental, tax-free, public power projects—in equity of this noted
- Postwar planning for conversion shifts
- Coöperation with other home interests—advertising local advantages
- Employees—tribute to those in armed services—reemployment plans
- Educational classes
- Collective bargaining contracts
- Pensions—health insurance, other "benefits" plans
- Participation in local war activities

Among the unique and helpful features in some reports were a one-page summary of high lights, charts in colors telling a graphic story of certain elements in the operating and financial picture, simple explanation of operating advantages in interconnection with neighbor utilities, the value to customers of special services, the mutual interests of customers, employees, and stockholders—the 3-group entity making up the company, and excellent photographs of a variety of action scenes, as well as of service aids and plants.

It is revealed in some reports that a company is no longer under holding company control, and now has thousands of individual holders of its common stock instead of one corporate holder. Where such a change has taken place, it is evident from the data in the reports that the managements of the companies thus affected are intent upon seeing to

## PUBLIC UTILITIES FORTNIGHTLY

it that these new members of their corporate family are intimately informed upon many details of the enterprise in which they have become part owners.

WITH the further integration of holding company systems under the Public Utility Holding Company Act of 1935, there may well be many more operating companies which will be "on their own," and as a consequence there is likely to be a wide distribution of common shares of business-managed utilities. These stockholders, scattered all over the United States, if kept informed not only upon company affairs but also upon fundamentals of the industry, can be a vital and constructive force in spreading the facts about free enterprise. An awareness of the responsibilities entailed and the possible potentialities in this new relationship is evidenced by the reports already at hand, from companies where such changes either have taken place or are expected to be imminent.

As illustrations of the instructive way in which certain of the basic factors in the utility situation are being put before stockholders, extracts are given below from some of the annual reports most recently received.

CALIFORNIA OREGON POWER COMPANY, under the heading, "Competitive Inequality," states:

The first rule of fair competition is that competitors play the game by the same set of rules.

The basic rule of taxation is that all taxpayers of like nature shall be taxed uniformly.

The nation's need for revenue to meet the tremendous cost of war and the constantly increasing expense of government dictates that no source of revenue be overlooked. Yet many lines of private business today are threatened with extinction and the nation is losing millions of dollars of desperately needed tax revenue because of tax exemptions and other special privileges and favors granted to rapidly growing groups of competitors.

Carry the process to its logical conclusion and where would the Federal and local treasuries secure the revenues to maintain the legitimate functions of government? There is only one answer. It would have to tax remaining taxpayers more heavily or

begin taxing the now privileged groups. If publicly owned power systems were taxed, the main argument now advanced to put private enterprise out of business would be ended.

Suppose the private electric company would ask for tax relief, agreeing to apply the entire savings to a reduction in its rates. What a cry would go up from every tax agency of government. And yet agencies of the government are at this very time sponsoring projects which, if carried out, will not only remove additional large amounts of tax-producing properties from the tax rolls, but will permanently eliminate from the field of free enterprise large and important segments of the utility industry.

Why should the patrons of a publicly owned and operated power system be accorded any privileges not offered to all citizens? Why should any group of citizens be penalized by tax-evading communities and government projects which are maintained as business enterprises in competition with tax-paying industries which support government?

Then, as to "Public Power," these carefully considered comments are made:

The cause of public power, given a new impetus by the 1944 national election, is again on the march. Its advocates are active everywhere from the halls of Congress to the corner store in the rural communities. Their efforts are reflected in increased REA planning, growing pressure to establish PUD's, and a drive to create additional power authorities.

If the argument for building a tax-exempt Federal power monopoly really is cheap electricity why wouldn't it be more logical to pass laws exempting the investor-owned electric industry from taxation? Such a program would promise rates below those offered by the various public power agencies—taxpayers would be relieved of the vast sums they are now being assessed to build competing government systems—and the power consumer would have the advantage of state regulation of the private plants and local management, something entirely lacking under the present scheme of government ownership and operation. . . .

If it is important for the government to go into the power business in order to save the householder a few cents a month on his electric bills, why should it not go the rest of the way and furnish food, clothes, and rent at cost, which items make up the bulk of his financial worries?

The people should get the issue straight and then decide whether they want to change our country from a nation of private business to one of stateism. If we favor putting

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"THE BUS COMPANY IS TRYING TO HANDLE MORE OF A LOAD THROUGH RHYTHMIC BREATHING"

the government into the power business to save a dime, we should be a hundred times more anxious to put it into farm production, the clothing business, and housing, not to mention the countless other activities upon which we are so dependent.

Central Power & Light Company (Texas) states that "taxes took 9 cents of each revenue dollar in 1940, the last full prewar year, and almost 26 cents in 1944. The difference between these figures represents a substantial financial contribution to the war effort." And, referring to special benefits which help employees and the company, this statement—presenting, perhaps, a new conception of a utility's place in a community—is made:

Good wages, job security, promotion on a

merit basis, and safe, healthy working conditions have always been emphasized in the relationship between management and employees of Central Power & Light Company. In addition, the company has continually improved and expanded a program of special benefits for employees which protect against emergencies and provide security for old age.

These specific practices and benefits are but an expression of the company's long-time general attitude of recognizing the importance of human relations in business. As a result, Central Power & Light Company has the reputation in its territory of being a good company to work for and, in addition, there has been built up an experienced, loyal organization which is a credit to every community served, which renders good service to the public, and which has performed an outstanding job in meeting the tremendous demands on the company brought on by the war.

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**C**ONSUMERS POWER COMPANY (Michigan), with reference to service to farms and the urge in some quarters for the spread of REA co-ops, makes this statement, which is significant of the extent to which rural electrification may be developed by an established business-managed utility company:

The company's rural lines are now available to 92 per cent of all farms in the 50-county area supplied. There are 19,524 miles of rural lines now in use, supplying 127,354 rural customers, of which 79,114 are farms representing 83 per cent of the farms in the territory.

Electric consumption continued to increase during 1944, reaching a new average of 1,952 kilowatt hours per farm, a gain of 102 kilowatt hours over 1943. At the same time, the average price per kilowatt hour declined to 2.58 cents, thus reflecting the economies of expanding use of electricity for varied farm operations and improved home standards.

Farm residential customers are served at the same standard rates in effect in urban communities.

The company's rural service specialists continue to work with farmers and other rural customers, as well as with Michigan State College and agricultural organizations, by aiding in the development of new or enlarged uses, the substitution of electricity for manual or other methods and processes, and in the maintenance and upkeep of farm electrical equipment.

In this extensive field of rural electrification, the company's interest goes beyond the building of lines and the supplying of current; it graduates into a personal and year-round working relationship with farm customers, to the end that the benefits of varied electrical applications and new developments may be made known to the farmer and translated into useful and productive services.

*Cincinnati Gas & Electric Company*, on the tax question, states that in 1944 its total tax bill was almost \$1,000,000 more than total payroll. The company comments:

... Like all American business, the company gladly accepts its responsibility of thus sharing in war financing and helping to contribute toward the maintenance of free enterprise and American democracy. Conversely, it voices its protest against the inequity of continuing to allow publicly owned utilities to be virtually tax free.

*Alabama Power Company*, with reference to plans for extending service to more farms when material is available after the war, states:

... To provide rural service as promptly as possible and to assist in the postwar economic and employment situation, the company in 1944 began preliminary plans for an extensive rural electrification program to be conducted in the immediate postwar period.

The plan was formulated with the coöperation of Alabama Extension Service and leading farmers of the state with the view of making electric service available to as many farms as possible and on the basis of extending electric service only to farms located closer to the present lines of the company than to the lines of any coöperatives. The purpose of this limitation was to avoid encroaching upon areas served by coöperatives. Such plans were discussed with Alabama Public Service Commission and superintendents of each local coöperative having lines within and adjacent to the areas served by the company and have met with their approval and agreement.

The total proposed program of the company thus far worked out amounts to about 6,000 miles of lines to serve about 27,500 new rural and farm customers in 55 counties of the state. At the end of 1944, we had obtained applications for service from 23,250 prospective rural customers which will involve the construction of 4,700 miles of lines when and as restrictions are lifted by the War Production Board and materials can again be procured. The construction of the lines and the connections for serving these customers is a postwar program.

**U**NION ELECTRIC COMPANY OF MISSOURI, as to planning for the future, expresses obligation as well as pride respecting its men and women in the armed forces and, upon the very important problems connected with their return, states:

... Under the direction of an officer of the company, we have established a definite procedure of continuous communication with every employee on military leave, and we are keeping ourselves informed of their experiences and their plans and ambitions for the future. With this knowledge at hand, arrangements are being set up to get them back at their jobs without confusion, and with due regard as well for the rights of their fellow employees who have carried on in their absence.

This added comment suggests thoughtful consideration of another phase of postwar planning:

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In the near future many of our customers, too, will be men and women who have served the nation at the war fronts, and who will be resuming their peacetime careers in which our service can play an important part. These human elements in the postwar era are prominent in the planning of our operations for the future. To provide a maximum of employment and to make electric power an increasingly useful aid in the growth and development of our territory, we have studied the probable needs of the communities we serve and planned our own course to meet these needs.

*Pacific Gas and Electric Company* makes clear that it has *not profited* from the war. Despite the great increase in business since 1939, the earnings for its common stock during the past five years were considerably less than in the more normal years from 1936 to 1939. Also, it is pointed out that public utilities are distinguished from most other forms of industry by their large investment in relation to gross earnings. The cost of capital, consequently, is a highly important element in their successful operation. These are basic factors regarding business-managed utilities which should be better understood by people generally. As thus brought out in this annual report of a company with over 120,000 stockholders, these important facts are made more widely known.

As an indication of comprehensive development of hydro power by a private utility—the comment suggested perhaps by widely announced claims to hydro power “supremacy” by some of the governmental public power proponents—the following paragraph from this report is illuminating:

Including the new Pit plant, the company now operates for the benefit of its customers 65 electric generating plants—52 hydro and 13 steam—with a total installed capacity exceeding 2,300,000 horsepower. This, in itself, is undoubtedly the greatest single “power pool” in the West, and one of the largest in the world. In addition, at the time of our peak load in 1944, approximately 584,000 horsepower was available from other sources under purchase and consigned power contracts.

Regarding taxes, which were equal to about 30 cents on each dollar received from customers for all classes of serv-

ice, this effective comparison is noted:

... the year's taxes exceeded by almost \$3,400,000 the combined amounts paid in wages and salaries to the thousands of employees who operate the property and in dividends to the 121,000 stockholders who own it.

Needless to say, the high Federal taxes paid by this and similar privately owned utility corporations are an important source of revenue to the government. Federal, municipal, and other publicly owned utilities pay no such taxes.

**M**ONTANA POWER COMPANY in its annual report makes these striking comparisons to show that the tax item looms large in their operations (it was equivalent to \$18,539 a day):

It is about \$5,608 per year per employee.

It is 32 cents out of every \$1 received from all our customers.

It is over twice the amount of gross revenue which we receive from our residential electric customers.

“And yet,” it is commented, “certain government agencies refer to tax-free power developments financed with Federal funds as ‘yardsticks’ for rate comparisons.”

Under the heading, “The Northwest Power Pool,” the report states that Montana Power has thirteen hydroelectric plants, interconnected with a grid of transmission lines so that every part of its territory can receive power from any combination of the thirteen plants. Observing that the advantages to operation and service are obvious, the report continues:

As a wartime expedient this principle of integration was extended further in 1941 by the executives of six investor-owned electric companies operating in the Pacific Northwest; *vis.*, Washington Water Power Company, Pacific Power & Light Company, Northwestern Electric Company, Idaho Power Company, Utah Power & Light Company, and Montana Power Company. The generating resources of these companies were interconnected and pooled to provide the highest operating efficiency and a maximum power supply for war industry without building new units which would have required essential materials vitally needed for other purposes.

The following year Puget Sound Power & Light Company, Portland General Electric Company, the municipal plants of Ta-

## PUBLIC UTILITIES FORTNIGHTLY

coma and Seattle, and the Federal plants at Bonneville and Grand Coulee joined the power pool.

Then follows a simple, readily understood explanation of what "interconnection," or the pooling of power resources, really means to customers and to the companies concerned. Certain factors, peculiar to the electric power business, which are elementary to operating men but generally a closed book to most people, are clearly and briefly outlined:

Hourly, daily, and seasonal power demands are not constant in any single system. Meal hours suddenly increase domestic loads; commercial and industrial loads are minimized on Sundays and holidays; changing seasons alter lighting loads. A system must maintain sufficient generating capacity to meet the peak loads whenever they come even though they be of comparatively short duration. That means that some capacity is idle most of the time.

By pooling or interconnecting the power resources of the aforementioned plants such as those in this particular group, peaks are staggered owing to differences in time zones, seasonal temperatures, and climatic conditions. Several of the systems are located in the Mountain Time zone and the others are in the Pacific Time zone. That difference of one hour is very helpful. For example, Montana chefs and housewives are preparing 6 o'clock dinners an hour ahead of those in Spokane and Seattle. The electricity from one kilowatt generating capacity can therefore be made to do the work that would require two if dinner hours came simultaneously throughout the territory covered by the pool.

And the economic value of such interconnection, by these investor-owned business-managed utilities, is indicated in the fact that over 100,000 kilowatts of additional power for war effort were made available in the Northwest without necessitating the construction of a single new power plant.

**I**N one annual report after another this year, the reader can find not only a variety of instructive detail concerning the past year's operations, but also some references which cast light upon two problems facing practically every investor-owned, business-managed utility company in this country. Heavy taxes and increasing governmental competition are actualities which cannot be lightly passed by. That managements recognize this is evident from the extracts from the reports quoted above.

Management is clearly resolved upon making the inequity of these matters known to its stockholders. Does not this suggest that such information be made even more widely known? Might there not be a notable upsurge for free enterprise, if the American people were told what the electric industry under business management has done in extending and improving service, and what it can do in the future if allowed to do so without hampering restrictions?

—R. S. C.

## Business Statesmen—American Industry's Need

**I**N a talk before the Sales Executives Club in New York city on March 27, 1945, Robert A. Whitney, manager of promotion, McGraw-Hill Publishing Company, Inc., discussed "Business Statesmanship the Next Step for American Industry." His remarks were especially timely and, while addressed to a group of industrial executives, certain of the points he emphasized are of more than passing interest to those who are engaged in the direction of business-managed utilities.

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Commenting that the satisfactory solution of the complex problems facing us will depend upon each one of us acting as a representative of business, Mr. Whitney observed that "it has been said that a politician interprets events to his selfish advantage but the statesman interprets them to the advantage of the public." "So," he added, "you as leaders of business must become Statesmen of Business." After referring to the remarkable record of industry in production of unprecedented quantities of war mate-

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"I CAN HARDLY HEAR YOU G-H-2—ALL I GET IS BUZZ, BUZZ, BUZZ!!"

rial, in addition to \$100,000,000,000 of so-called civilian products—our enterprise system having thus functioned through mass production—the speaker continued:

Through engineering research, and especially management, American industry has planned and accomplished great things . . . But how much has been done to interpret this accomplishment to the American public? What statesmanship—business statesmanship—has been used to promote this way of American enterprise to the very people who are going to say whether or not we will continue with this method of doing business in the future?

Stating that there is a widely held

misconceived idea that wartime profits of industry have been unduly large, whereas the 5-year average from 1940 to 1944 is 10.3 per cent, the speaker referred to the broad wartime controls government has exercised over business and said:

It is not a secret to any of us that a great many people in this country believe that a continuance of this policy of control is essential to national prosperity and would like to see such controls continued in peacetime!

I believe that it is up to us as sales and key executives in our companies to present the proper facts—the true picture—of just how industry stands in regards to wartime profits.

## PUBLIC UTILITIES FORTNIGHTLY

In straightforward terms, Mr. Whitney voiced these constructive thoughts:

The people of this country want optimism, faith, and enlightened leadership. They will be receptive to management's plans if management provides practical, understandable methods of creating better futures for everyone. . . .

If we in industry can clearly present the vision of what the future can be and will be if business exhibits the genuine leadership that it can provide, the American public will not have to feel that they must seek aid from the government. They will support an industry, or a leadership, which looks beyond the mere profit motives to the physical and economic well-being of the American public.

Commenting that the restrictions put upon an individual's freedom during wartime have given the public a good inkling of what full governmental control would really mean, as well as a realization that politicians cannot always produce the Utopia they promise, he urged that it's up to every one of us acting as business statesmen to point out to the public the advantage of operating under the private enterprise system.

At this point in his talk Mr. Whitney quoted a recent article, "Management—Tell What You Stand For," in which Paul Garrett of General Motors Corporation said:

. . . But what does industry stand for during peace! I doubt that many people know. Every schoolboy has a concept of his own with regard to almost any institution you can name. Nobody questions what the church stands for. Nobody questions what the college stands for. Nobody questions what the New Deal stands for. Nobody questions what the Red Cross stands for. Nobody questions what the CIO stands for. But how many people can tell what industry stands for in the life of America?

Those provocative words prompt the query—"how many people actually understand what the business-managed utilities mean in the life of America?"

**T**URNING then to certain questions which arise concerning the attitude of labor, the speaker said:

Labor has made much over the fact that the cost of living has gone up in this country. They have made much over the fact that the figures used by the government were not

acceptable to them. However, it might be interesting for labor—that is, the leaders of labor—to relate this to a recent public opinion survey, based upon the question of what groups are not cooperating in the war effort.

This survey revealed that nearly 50 per cent of the American public believes that labor, through wartime strikes, has shown a lack of cooperation in the war effort. Smart labor leaders realizing the public may not have all of the facts are already doing something about it.

They are doing this through qualified spokesmen for labor.

American business needs a spokesman, needs thousands of business statesmen who will explain in the language of the man in the street the position of industry and business to the American public.

As an indication of labor's viewpoint on some of industry's problems, he said that a recent survey conducted by an outstanding research organization indicated that nearly 50 per cent of both union and nonunion factory workers believe that the government will accomplish more than managements in solving the postwar "job" problem. Only about 25 per cent showed any real confidence in management's ability to do the job. Such findings suggest how very important it is for businessmen to point out to labor that industry and labor must work together in harmony, if private enterprise is to be successful and if we are to have a free America.

In discussing government and business, the speaker said:

Another field for business statesmanship is to develop a better relationship between government and business. For some time now government has been doing the planning for many businesses. One of the principal ingredients of this government control either in war or peacetime is enforced industry-wide planning and cooperation.

This type of planning is based upon scientifically selecting complete and accurate facts.

American business should do this for itself. For only by doing it will we preserve the essence of private enterprise and initiative. Industry is well equipped to do this job, and in those fields where government planning continues after the war, facts brought out by industry will help guard against costly and crippling errors by ambitious builders of government bureaus.

That particular comment should strike

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a responsive chord with utility executives; for they have had long and intimate experience with government bureaus!

In this address, the point was also stressed that if in the postwar era the government is to guarantee jobs, the government cannot long refrain from telling people where and at what they are to work. And, such a state of affairs would undoubtedly mean some form of totalitarianism or collectivism.

As to the vital "challenge of education," Mr. Whitney had some pertinent and thought-provoking things to say:

There is still another challenge that faces businessmen today. Some have said that it is an even greater challenge than engineering or selling, and that is the challenge of education. If we are to preserve the American system of private enterprise, we must do more than we are doing now to sell this system to the youth in our colleges, universities, and trade schools, who will be the leaders of industry tomorrow.

For it is certainly true, whether we like it or not, the courses and books found in some of our educational institutions certainly do not preach the American doctrine of private enterprise. Gentlemen, if our philosophy is not sold to the youth of this country some other philosophy will prevail, because the proponents of "ism" philosophies are usually master salesmen and propagandists.

We as business statesmen must begin to take more of an interest in the educational courses in this country. We must work with those in charge of college curricula to see that the products of these colleges, the young people who join our organizations, are fitted for the job that they will have to do when they work for us. Let us lend our help, weight, and experience to make certain that American youth gets the proper training for his advent into the business world.

This subject of "education" is one to which the heads of business-managed utilities could equally well direct their attention. The present generation of students in high schools and many colleges has grown up in this era of widely propagandized governmental public power. These young people know far too little of the accomplishments of the many private utilities (so-called) in the war effort, or the contribution these tax-

paying, business-managed companies have made to our American way of life, in steadily expanding services furnished to homes and industry.

Much of the balance of Mr. Whitney's talk was devoted to sales, distribution, and advertising—all presenting problems little understood by people generally. He urged the need of intelligently making the truth regarding these phases of business better known to the public. A Gallup poll recently reported, he said, that

... only 30 per cent of the American people know what is meant by "free enterprise," 70 per cent don't understand it, and many of them, if it means what they think it does, don't like it!

We know its advantages; we know its possibilities, not only in war, not only in reconversion, but for the long years of peace ahead.

What can we do as business statesmen? It has been said that Americans in a jam are the most efficient beings on earth, and yet they are hounds for comfort. Not only this, but this war has brought us closer to one simple truth and that is that the attainment of any national objective can be no greater than the collective achievements of small groups of individuals.

And so while the over-all job of business statesmanship is big, tremendous, as I've shown—it can be broken down into little segments. That means each one of us has a job to do, not only in manufacturing, distributing, and especially selling or advertising our products, but also in seeing to it that at every opportunity, by thought, word, or deed, we promote this American system of ours as the kind of system we'd like to see continued.

We should promote it consistently . . . To our families—yes, to every voter in our communities—for in our present democratic form of government, everyone has a voice and a stake in America's future.

This talk to businessmen by a "businessman" closed with the remark that someone had said that "we face a crisis." This reminded Mr. Whitney that the Chinese character for the word "crisis" consists of two figures, the one on top meaning "danger," and the one on the bottom "opportunity." This, he said, typifies where private enterprise stands today—in "danger," but with great "opportunity" ahead!

—R. S. C.

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# The March of Events

## RFC Head Appointed

**P**RESIDENT Truman in his first appointment since taking the oath of office, on April 17th, nominated John W. Snyder, vice president of the First National Bank of St. Louis, as Federal Loan Administrator.

Mr. Snyder, one of the new President's most intimate friends since the first World War, was executive vice president and director of the Defense Plants Corporation, and assistant to the directors of the Reconstruction Finance Corporation from 1940 to January 1, 1943. For three years previously he was manager of the St. Louis agency of the RFC.

Succeeding Fred M. Vinson, recently made Director of War Mobilization, Mr. Snyder, confirmed by the Senate late last month, will be administrative head of the government loan agency whose subsidiaries have already made authorizations of \$40,000,000.

Jesse Jones, who for many years guided the loan agencies, said the President "could not have made a better appointment."

## REA Plans Discussed

**P**LANS for expenditure of \$30,000,000 in postwar projects to extend rural electric service to 110,000 new farm and rural home users in the Tennessee valley area were discussed at conferences at Chattanooga, Tennessee, of officials from the Rural Electrification Administration and the Tennessee Valley Authority.

Principal conferees included William J. Neal, St. Louis, acting REA Administrator, and G. O. Wessenauer, TVA power manager. With members of their respective staffs, they met at Chattanooga April 16th and 17th.

Neal said the main topic of discussion was the REA's postwar program, which, he said, would get under way as soon as man power and materials become available in sufficient quantities.

For the entire area served by the TVA, he said, plans call for extension of power service to 110,000 farm and rural homes, at a cost of \$30,000,000.

"But the coöperatives are conducting surveys in the area and it looks like the figures will be higher," he said.

Neal said he did not believe plans for the REA would be changed under the administration of President Truman.

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"Our program is well accepted by Congress. They have been quite willing to make provision for it and we have no reason to anticipate any change," he said.

## SEC Approves Stock Sale

**T**HE Securities and Exchange Commission on April 21st approved the sale at competitive bidding by Northwest Utilities Company of all the issued and outstanding common stock of its subsidiary, Lake Superior District Power Company, consisting of 133,550 shares with a par value of \$20.

The SEC reduced to seven days the period for inviting competitive bids to permit the opening of bids on April 30th.

Northwest expects to apply the net proceeds from the sale to the purchase of additional shares of the common stock of its subsidiary, Wisconsin Power & Light Company, subject to future application to and approval by the SEC.

## Mexican Water Pact Ratified

**T**HE U. S. Senate last month ratified the Mexican water treaty by 76 to 10. President Truman said in a statement that the Senate gave strong assurance that it is solidly behind "the established government policy to deal with our good neighbors on the basis of simple justice, equity, friendly understanding, and practical coöperation."

"By this action of the Senate the United States and Mexico join hands in a constructive, businesslike program to apportion between them and develop to their mutual advantage the waters of the rivers that are in part common to them."

The treaty was ratified after nearly three months of debate, during which opponents put through several reservations. The vote was considerably more than the two-thirds needed for ratification. The compact must be ratified by Mexico's legislature.

Secretary of State Edward R. Stettinius, Jr., also welcomed the Senate's approval of what he called "a common sense, businesslike arrangement."

## Backs Audit Bill

**C**ONTROLLER General Lindsay C. Warren last month endorsed a bill by Senators Harry F. Byrd, Democrat of Virginia, and Hugh But-

## THE MARCH OF EVENTS

ler, Republican of Nebraska, which would require an annual audit of all wholly owned government corporations by the General Accounting Office.

The bill also would require preparation of an annual budget estimate by each of the 44 corporations and would prohibit any expenditure by them without specific congressional authorization.

Mr. Warren, testifying before the Senate Banking and Currency Committee, said he considered the bill to be "the most forward-looking and outstanding piece of legislation of its kind in the last twenty-five years."

Senator Byrd told the committee that "by the operation of these 44 corporations Congress has lost specific control over the expenditure of vast sums of funds for which, under the Constitution, it is responsible to the citizens of America."

Some of the corporations, he said, have used funds "for purposes, I think, entirely foreign to the authorization as intended by Congress, particularly with respect to the payment of subsidies."

After the war, Senator Byrd suggested, Congress should study legislation to reduce the number of corporations and consolidate their activities.

### Dissolution Opposed

**T**he management of the United Gas Improvement Company, in its proxy notice to stockholders for the annual meeting scheduled for May 7th, declared recently that it would oppose any plan suggested by stockholders for dissolution of the company.

According to the proxy statement, two stockholders were expected to present resolutions calling for dissolution at the annual meeting. The stockholders, who own a total of 960 shares, contend that the amount which stockholders would receive upon liquidation is much greater than the present market value of the stock. In its statement, the management declared that the company intended to stay in business and continue to own and operate public utility companies as it has been doing since 1882.

UGI as a utility holding company has undergone a sharp contraction in the past two years in complying with the integration and simplification provisions of the Public Utility Holding Company Act.

### Suit Asks Accounting

**T**wo stockholders of Utah Power & Light Company filed suit in United States District Court recently requesting that the company account for and restore allegedly misappropriated funds said to total more than \$30,000,000. Also named in the suit were nineteen of the company's former and current directors and five associated corporations, including Electric Bond and Share.

The writ charged directors with conspiring to enrich EB&S and its affiliated corporations at the expense of Utah Power & Light by means of "fraudulent and improvident" inter-company transactions.

Mayo S. Levenson, Portland, Maine, lawyer, entered equity action for Thomas W. Layman and A. J. Elggren, both of Salt Lake City, Utah.

The writ said that Mr. Layman and Mr. Elggren acted "in behalf of and in the right of" Utah Power & Light as well as themselves.

Other defendant corporations are Electric Power & Light Company and Utah Power Company, Utah Power & Light, Maine corporations, and Utah Securities Corporation, organized in Virginia.

The writ also stated that all four corporations were organized by Electric Bond and Share, a New York corporation, and controlled by it through directors nominated by the parent company's directorate and elected by votes of stock held or controlled by the parent company.

The Utah Public Service Commission has asked permission to intervene in the case before the Securities and Exchange Commission involving recapitalization of Utah Power & Light Company, hearing on which was scheduled to open in Philadelphia on April 23rd, Donald Hacking, commission chairman, announced last month.

Clinton D. Vernon, state commission counsel, was instructed by the commission to be in Philadelphia "to follow the course of the hearing and, if he deems it appropriate and advisable, to participate in the hearing within the limits of applicable rules."

In a letter to the SEC, Mr. Hacking said the state commission may not wish to introduce testimony, but asked that Mr. Vernon be allowed to question witnesses.

As part of the plan, UP&L proposes to pay \$650,000 to Electric Power & Light Corporation for the surrender and cancellation of 2,100 shares of \$7 preferred stock and 3,000 shares of common stock in the Utah Company. Mr. Hacking said it appeared to the commission that there was no equity in the common stock, but this did not necessarily mean that the commission would oppose that part of the plan.

### Permanent FEPC Ridiculed

**T**HE proposal to create a permanent Fair Employment Practices Committee was branded the handiwork of organized minority pressure groups who see a chance to capitalize on wartime conditions by Representative O. Clark Fisher of San Angelo, Texas, in a House address last month.

"This measure in normal times would be the object of almost universal ridicule," said Fisher, who as a member of the House Labor Committee signed an unfavorable minority re-

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port on the bill. "Two years ago there was no agitation for a permanent law, five years ago it was unheard of. Yet now we are told that to save democracy and freedom the measure must be enacted at once."

The permanent FEPC bill, drafted by the Labor Committee, was then in the House Rules Committee. Mrs. Mary T. Norton, Democrat of New Jersey, committee chairman, has warned that she would circulate a petition to discharge the Rules Committee's consideration in order to get the bill on the floor if the rules group does not report it soon. Signatures of 218 members will be required to accomplish this.

Fisher asked his colleagues to study the measure carefully before signing a discharge petition or voting for the bill.

"The great unorganized majority know little about the effect of this measure," the west Texas Congressman said. "Few realize it would vitally affect the property rights and employment methods and practices of tens of

millions of businessmen, merchants, and farmers." Fisher said only in a totalitarian state where there is control of the whole economy can there be true job equality for all, and that a well-operated penitentiary lends itself to that sort of thing.

The Commerce and Industry Association of New York, which claims a membership of more than 3,500 firms, last month protested to the Senate Education and Labor Committee against pending antidiscrimination bills.

The association noted in a statement sent to the committee that the state of New York recently enacted an antidiscrimination statute and said: "Would it not be the part of wisdom to await the success or failure of this effort before seeking to put it into effect for the entire country?"

The association contended that Congress has no power to regulate local employment practices. "Any attempt at universal enforcement by a central agency would be doomed to failure," it said.

## California

### Replace Men on Strike

SANTA MONICA's municipal bus system on April 20th began hiring men to replace fifty-one drivers who were discharged the previous day for refusing to go back to work, after having struck and paralyzed the system on April 17th.

Fifty-nine of the system's sixty-five drivers struck under Brotherhood of Railroad Trainmen leadership, the others being away on sick leave, vacation, or otherwise. Transportation Superintendent Charles H. Zaps appeared at the picket line in front of the municipal garage on April 19th and called on the men to return to their posts. He said eight did so, but fifty-one did not. These were immediately handed their dismissal pay checks and notified by board of personnel letter that "they are deemed to have resigned . . . and no further payrolls will be certified for these former employees."

Some of the men were said to have as much as ten years' seniority. Their names were sent to their draft boards with the notice that they are no longer in an occupation entitling them

to deferment from service in the armed forces.

The strike was reported to have grown out of a long-standing dispute between union leaders and the city over union recognition and wages. The matter of recognition was said to be involved in a case now before the state supreme court, the city taking the position that under the law it cannot recognize a union as a collective bargaining agent for its civil service employees.

### Employees Cancel Strike

A THREATENED strike of 4,000 Pacific Gas and Electric employees, scheduled for April 19th, was called off after officials of the International Brotherhood of Electrical Workers met in San Francisco with high-ranking Army and Navy officers.

The decision was reached, according to Charles W. Mason, international representative of the union, after the Army and Navy had received an assurance from the War Labor Board, to which the union had appealed for settlement, that a decision would be reached on or before May 19th.

## Idaho

### Utility Commissioner Appointed

W. B. Joy of Richfield last month was appointed a member of the state public utilities commission, succeeding J. D. Rigney of Boise. Governor Charles C. Gossett said

the appointment would be effective May 1st.

Rigney was appointed to the commission in 1944 by former Governor C. A. Bottolfsen to finish out the term of R. H. Young of Parma, who resigned at that time to become commissioner of agriculture. Rigney had been serv-

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ing under a temporary appointment since his term expired January 1st.

Joy has been allocation officer for the Office of Defense Transportation and previously served as secretary of the state public utilities

commission. He resigned the commission post in November, 1942. Born in Iowa City, Iowa, he was graduated from Iowa State University. He served as journal clerk in the state senate in 1933.

## Illinois

### Judge Refuses Ruling

JUDGE Michael L. Igoe of Federal District Court made it clear at a hearing last month that he would not take personal responsibility for saying that Chicago's offer to buy the surface lines for \$87,000,000 is fair. His remarks were made after two expert witnesses for the city had testified for four days to prove that the price, based solely on the earnings of the two companies, was equitable. These witnesses were Peter J. Boesen of the city's traction engineering staff and George E. Goldthwaite of New York.

Judge Igoe said that in view of many other valuations made in the past, all much above \$87,000,000, he could not "on such evidence" make a finding of fairness now. He recalled that three years ago a paper valuation of \$179,000,000 had been set upon the same properties.

"The city has made out a *prima facie* case only," he said. "The matter will be passed on to the Illinois Commerce Commission and the Securities and Exchange Commission for reports to the court."

Governor Dwight H. Green, in Springfield, on April 12th signed the transit bills that permit the establishment of a publicly owned Metropolitan Transit Authority which is to acquire and operate a unified traction system in Chicago and such suburbs as vote to enter it.

The governor, who disclosed that Attorney General George F. Barrett had written an opinion that the legislation was constitutional, said that the enabling act, sponsored jointly by Mayor Edward J. Kelly and the state administration, "opens the way for a prompt solution of the most pressing problem confronting the people of the Chicago metropolitan area—local transportation." He added that when the voters had approved the legislation by referendum, the new authority may begin plans to modernize the traction system and buy equipment as soon as wartime restrictions are lifted.

The city council on April 23rd unanimously adopted Chicago's \$37,162,500 public ownership traction ordinance, which grants a 50-year franchise to the newly created Metropolitan Transit Authority. A referendum is to be held on June 4th.

## Iowa

### Trolley Tax Bill

DES MOINES will receive a larger share of the Des Moines Railway Company's passenger bus revenue as a result of eleventh-hour action in the state general assembly. The senate passed without change the house bill to raise the tax rate on the company's gross receipts from trackless trolley and motorbus passenger business from 1½ per cent to 2½ per cent.

The bill having passed the house in the same form, it has been sent to the governor.

The bill was put on the senate calendar on

April 11th and was passed in a few minutes the following morning after J. Kendall Lynes, Republican of Plainfield, withdrew an amendment which would have placed the tax rate at 7½ per cent.

"The city council has asked for this," George Paul, Republican of Des Moines, said as he called the bill up for a vote, "and I understand that the street railway company is willing to pay it. Some people may be disappointed who would like more, but I think we had better get it passed this session."

There was no further discussion and the bill passed without a dissenting vote.

## Louisiana

### State Denied Rehearing

THE United States Fifth Circuit Court of Appeals last month refused a rehearing on its recent decision upholding authority of

the Memphis Natural Gas Company to construct additional pipe lines for increasing its flow of gas from Louisiana fields to Memphis.

Rehearing was asked by the state of Louisiana on technical points and the state's claim

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that diversion of additional gas would work against conservation measures.

The state has announced that it would carry its case to the United States Supreme Court.

In its original petition the state questioned legality of a Federal Power Commission's order which had directed the company to build the pipe-line facilities.

### Maryland

#### To Drop Increase Bid

**T**HE Consolidated Gas, Electric Light & Power Company will withdraw the application pending before the state public service commission for an increase in gas rates, it was announced last month by the utility.

The decision followed a ruling on April 19th by the state commission in the hearing on electric rates that the property of the company should be valued as a whole and not by separate services.

The commission's ruling followed requests by intervenors in that case that, for the purpose of rate making, separate valuations be made for gas, electric, and steam properties.

The company is prepared to withdraw its petition for an increase in gas rates if the state public service commission grants its motion to

evaluate all the company's services as a whole in the present investigation of electric rates instituted last June, Colonel Clarence W. Miles, of company counsel, now on inactive duty with the Army, had previously said in arguments on the motion.

John Henry Lewin, attorney, who intervened in the proceedings on behalf of the Rustless Iron & Steel Corporation, asked why the users of electricity should pay "exorbitant rates so that the Consolidated can serve stores with steam heat for nothing."

The company has about 700 to 800 customers for steam distributed in the downtown area from a central plant. All of the steam users pay regular, graduated rates on file with the state commission. The company holds these rates are in line with heating costs of privately operated heating systems.

### Michigan

#### Excise Levy to Be Repealed

**T**HE Detroit city council moved last month to abolish the city's 16-month-old excise tax ordinance which has been a major obstacle in the path of a \$10,450,000 rebate on 1944 Detroit Edison Company bills.

William E. Dowling, corporation counsel, and James H. Lee and John H. Witherspoon, assistants, appeared at the council meeting on April 11th to urge the tax be repealed.

The measure, sponsored by Mayor Jeffries late in 1943 and designed to channel excess profits of the Detroit Edison Company and the Michigan Consolidated Gas Company into the city's postwar reserve, was recently held unconstitutional by Circuit Judge Joseph A. Moynihan.

The council voted informally to repeal the measure at the business session held last month and to give the repeal immediate effect.

Dowling told the council that he had talked to Mayor Jeffries and that he had been assured by Jeffries that if the ordinance was standing in the way of the reaffirmation of the rate reduction order, to ask the council to repeal the tax ordinance.

"The ordinance served a helpful purpose. Following its enactment, the Michigan Public Service Commission ordered the reduction of \$10,450,000 last August."

City rate experts said that the state commission ruling, if reaffirmed, would result in a 12 per cent rebate to local electric users, or approximately forty-five days' free service.

Repeal of the ordinance would both clear the decks for action on the 1944 rate reduction order and enable the city to start a new case for 1945, Lee told the council.

"We believe we can sustain the validity of the \$10,450,000 rate reduction order, which Edison is now appealing," Lee explained.

### Missouri

#### Commission Members Appointed

**R**EGORGANIZATION of the state public service commission, from Republican control to Democratic, was effected last month by Governor Phil M. Donnelly, with appointment of

Morris E. Osburn, Democrat of Shelbyville, as a member and chairman, and E. L. McClintock, Democrat of Cape Girardeau, member.

The appointments changed the commission from a membership of three Republicans, one Democrat, and one vacancy, to three Demo-

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crats and two Republicans, subject to senate confirmation of the appointments.

Osburn, lawyer and former speaker of the Missouri house, was appointed for an unexpired term ending April 15, 1947, and was designated by Donnelly as chairman. He succeeded Richard Arens, Republican of Kansas City, who was appointed last December 30th by former Governor Forrest C. Donnell, shortly before Donnell retired as governor. This recess appointment was returned by the senate to Donnelly after his inauguration last January 8th, leaving Donnelly free to make a new appointment.

McClintock, lawyer and court reporter of the twenty-eighth judicial circuit since 1913, suc-

ceeds John A. Ferguson, who resigned last December, for an unexpired term ending April 15, 1949. McClintock formerly was president of the Cape Girardeau County Bar Association.

The term of Commissioner Charles L. Henson, Democrat of Springfield, expired April 14th. The governor said he had received a number of recommendations for reappointment of Henson, but stated recently that he was not ready to make an announcement.

The two Republicans remaining on the commission are Kyle D. Williams of Trenton, who had been chairman, and Miss Agnes Mae Wilson of Trenton. Williams' term expires April 15, 1947, and Miss Wilson's term expires April 15, 1949.

## New Jersey

### Revised Schedule Proposed

A REVISED schedule of electric rates reducing charges to customers by approximately \$300,000 annually has been proposed by the New Jersey Power & Light Company as a result of its operation for the year 1944 under the "rate adjustment plan" adopted by the state board of public utility commissioners in March, 1944. The proposal was contained in a report of the company recently submitted to the board by H. C. Thuerk, president, in accordance with the provisions of the plan.

An order was issued by the board fixing April 19th as the date of public hearing in Newark, to be held to consider the result set forth in the company's report and to consider the acceptance for filing of the proposed new schedules of rates for electric service.

The proposed reduction in electric revenues of \$306,000, together with a billing credit or customer dividend extended to residential and commercial customers in December, 1944, which amounted to approximately \$129,000, brings the total reduction or savings to electric consumers resulting from the first year

of operation of the plan to approximately \$425,000. The proposed reduction of \$306,000 in electric revenues would be accomplished by a billing credit and by revision of certain rate schedules which will benefit residential, commercial, and industrial customers.

### New President Elected

DIRECTORS of Public Service Corporation of New Jersey and subsidiary companies have elected George H. Blake, of West Orange, president to succeed Edmund W. Wakelee, president since 1939, whose retirement because of illness was announced last month. Mr. Blake, who has been with the corporation since 1910, had been executive vice president. (Mr. Wakelee's death was later announced.)

Thomas N. McCarter, Jr., of Moorestown, was elected to succeed Mr. Blake as executive vice president. Mr. McCarter had been vice president in charge of Public Service's southern division for the last six years.

Thomas N. McCarter, Sr., of Rumson, long a leader in Public Service, was reelected chairman of the board.

## New York

### Utility's Status Changed

THE Securities and Exchange Commission on April 21st issued an order and opinion modifying the exemption granted to the Long Island Lighting Company in 1936 from all provisions of the Holding Company Act of 1935, because "the circumstances which gave rise to the exemption no longer exist and it is detrimental to the public interest to continue such exemption."

The commission's termination of the exemption in respect to certain provisions of the act

necessitates the company's future compliance with the sections covering corporate reorganization and registration, as well as the issuance and sale of securities. The power to modify the company's capital structure in any way which it deems necessary in the public interest is also assumed by the commission.

The SEC in its order said it had become apparent that the security structure of Long Island, as well as each of its utility subsidiaries, including Kings County Lighting Company, Queens Borough Gas & Electric Company, Nassau & Suffolk Lighting Company,

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and Long Beach Gas Company, Inc., "is wholly unadapted to the underlying assets and bears no relation to the earning power of such assets."

### Governor Vetoes Bill

**G**OVERNOR Dewey on April 21st vetoed a bill excepting from some of the provisions of the stock corporations law, corpora-

tions being reorganized under the National Bankruptcy Act and the Public Utility Holding Company Act.

"Serious objections to various provisions of this bill have been raised on matters affecting the protection of the rights of the stockholders and the public," said the governor. "Moreover the state public service commission has requested further opportunity to study the proposed amendments."

## Ohio

### House OK's Utility Tax Bill

**B**y a vote of 111 to 12, the state house of representatives last month passed and sent to the senate the bill to extend the .65 per cent utility excise tax, which was scheduled to expire April 30th, for another two years.

This bill was reported to be the last measure in the tax program which was recommended by Governor Frank J. Lausche and was being supported by Republican leaders of the house and senate.

The utility excise tax produces approximately \$2,400,000 a year. Proceeds are distributed to local governments. In the past the money has been earmarked for poor relief, but the bill passed by the house last month was amended to permit the diversion to county soldier and sailor relief funds of any current proceeds of the tax which are not needed for poor relief.

Lody Huml, Democrat of Cleveland, and

Ralph Siferd, Republican of Wapakoneta, opposed the bill on the ground that the money was not needed for relief and that diversion of the proceeds to a soldiers' and sailors' poor relief fund was a feeble effort to justify an unnecessary tax.

Huml declared that Ohio's 88 counties have a total of \$15,930,000 in poor relief funds derived from the utility excise tax and that current relief needs in the state are only \$5,408,000 a year, of which the state pays half.

"It is not popular to oppose a bill to tax utilities," said Huml, "but no one can justify a vote for this bill on the basis of reason or necessity. Enactment of a tax to build up a surplus is corrupt and politically immoral and would encourage extravagance. If the legislature had the courage to do what it ought to do, it would repeal this tax and the tax on meals. It is a sad situation if all we can do for the returning war veterans is to give them a handout."

## Pennsylvania

### Statement "Misleading"

**C**HARGING the Equitable Gas Company has submitted misleading figures to justify a proposed rate increase, the Office of Price Administration at Pittsburgh recently announced its intention to carry the fight against the increase to higher courts if necessary.

The charge was made by OPA Attorney Harry A. Booth, who asked state Public Utility Commissioner Henry Houck to order an independent audit of the company's books. Mr. Booth then declared the OPA would press its fight to halt the rate increase.

Ordering Mr. Booth to submit his demand for an independent audit in writing, Commissioner Houck adjourned the hearing until May 9th, when it would be reopened for a 3-day period.

Mr. Booth flung his charges when he made a statement "for the record."

"I wish to have the record show that I expected to prove that the net income of the Equitable Gas Company and the Philadelphia

Company (the parent concern) through the sale of gas was not \$1,630,200 after payment of taxes, as indicated by the reports submitted in this case, but were at least one million dollars more."

Mr. Booth said he had expected to prove his charge by introduction of various exhibits and by cross-examination of witnesses. Earlier, his exhibits were ruled out on the grounds he had not stated what he expected to prove by their introduction.

Booth said he would make a formal motion for an independent audit, and that OPA had hired Fred Kleinman, public utility litigation expert and former member of the Illinois Commerce Commission staff, as consultant. Mr. Kleinman would be available for the independent audit should the commission approve, Mr. Booth said.

The rate increases, suspended for six months by the state commission last February, are sought by the company, which contends the increased rates are the same as those charged by two other companies in Pittsburgh.

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The increase also is being opposed by the city of Pittsburgh, Allegheny county, and several smaller municipalities.

City Solicitor Anne X. Alpern disclosed recently that the Federal Power Commission will investigate natural gas rates of the Equitable Company and its wholesale affiliates to determine their reasonableness. Miss Alpern revealed at the hearings that the FPC will probe the

rate structure of the Kentucky West Virginia Gas Company and the Pittsburgh & West Virginia Gas Company, wholesale sources of gas for Equitable Gas.

The city believes that rates charged Equitable by the two wholesale suppliers are too high, and that a reduction in the wholesale cost of gas would eliminate the necessity for a boost in retail rates.

## Tennessee

### Gas Company Hearing Set

THE Knoxville Gas Company Case will be heard May 15th at Nashville, the state supreme court ruled on April 20th following an appeal from the city that the case of 3,000 local residents *versus* Knoxville be heard early.

The city's petition for an early hearing was based on the argument that its contract for

purchase of the \$450,000 Knoxville Gas Company will expire June 1st.

N. B. Weaver and more than 3,000 other Knoxville citizens signed a petition attempting to force the city to submit the question of issuing \$450,000 in revenue bonds for purchase of the gas company to a referendum. Chancellor A. E. Mitchell upheld the city in a decree at Knoxville some weeks ago.

## Texas

### Tax Measure Killed

THE hope of taking heavier toll of the natural gas industry than the \$3,200,000 contributed last year seemed about to expire as a result of a series of incidents which had their beginning in the house revenue and taxation committee on April 18th and ended in that same committee the following afternoon, after an interesting episode in the state house the morning of April 19th.

On April 18th fifteen of the nineteen members of the house revenue and taxation committee voted against a motion to report the McLellan Bill with a recommendation that it be passed. Thereupon the four gave notice of a minority report.

On the presumption that such a report had been made, the author of the bill, C. S. McLellan of Eagle Lake, moved in the house that the bill which the committee had rejected be printed on minority report, which, if done, would have given it precedence on the house calendar over a score of other bills.

But Obel McAlister made the point of order that in reality the committee had taken no affirmative action, for which reason, he contended, no minority report could be made to conform with the requirement of the rules. The speaker sustained the point of order.

Thereupon McLellan moved the house that the committee on revenue and taxation be directed to report the bill. The committee did so—12 to 2—but with the recommendation that it do not pass. Four voters for the bill would be required before the house could be asked to print the bill on a minority report.

There were said to be other natural gas tax

bills in the revenue and taxation committee, but obviously their case was hopeless.

### To Study Gas Waste Problem

A COMMITTEE of engineers got a go-ahead signal last month to study the problem of casinghead gas waste in Texas. An advisory committee of major and independent oil company representatives met with the state railroad commission to consider procedure for an industry engineering committee to make a scientific study of the natural gas which is produced with oil. William Murray, Houston engineer, suggested the survey several months ago and the commission chose him to head the project.

The advisory committee has elected James P. Nash of Austin to be its chairman.

The two dozen members adopted a motion by Hines Baker, Houston, attorney for Humble Oil & Refining Company, authorizing the engineering committee to survey fields which produced more than 1,000 barrels of oil or 1,000,000 cubic feet of gas daily; to determine the amount of gas produced, the amount used, and the amount flared; to learn how much gas could be obtained from plants making casinghead gasoline; and to recommend conservation practices by general categories.

The industry group added a proviso for engineers to report on specific fields.

Chairman Nash appointed a subcommittee to help the engineers decide policy questions.

The procedure proposed calls for submission of the engineering reports to the advisory committee, which will make recommendations for conservation to the state railroad commission. Chairman Olin Culberson of the Texas

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commission said the information would be useful in helping combat the Federal Power Commission's alleged ambition to take over the regulation of all phases of natural gas.

Commissioner Beauford H. Jester suggested that settlement of the industry's problems by the operators themselves would be better than legislation.

Congressman Wright Patman, Democrat of Texas, beginning what he termed an aggressive fight against the proposed construction and operation of a natural gas pipe line from Texas and Oklahoma fields to Midwest markets, said recently he had asked for a hearing before the FPC to voice his objections. Patman said

he wrote Basil Manly, FPC chairman, voicing his objection to the proposal and asking for an opportunity to appear before the commission in opposition to the matter.

The Congressman, in a statement to the *Texas Arkansas Gazette*, said: "I believe it is wrong for our natural gas to be carried to the coal regions, where there is plenty of coal, and exhaust our fuel, while they would have the coal left. This would result in keeping our section perpetually from being industrialized. Industry should come to the fuel rather than carry the fuel to industry."

He said he would welcome assistance from other members of Congress.

## Washington

### Says CVA Will Help

A U. S. Senate subcommittee, headed by Senator Warren G. Magnuson, will go to the state of Washington next summer to conduct public hearings on the proposed Columbia Valley Authority Bill, members of the Columbia Valley Authority Information League were informed last month at a meeting in Spokane by Senator Hugh B. Mitchell of Washington.

Senator Mitchell said he could not help being amazed at so much opposition to his CVA proposal, which he said was designed to develop all the resources of the region.

The functions of the various Federal agencies operating in the Tennessee valley have been coordinated satisfactorily by the Tennessee Valley Authority, Rufus Woods, publisher of *The Wenatchee Daily World*, told members of the Washington Resources Council at a recent meeting in Seattle to discuss Senator Mitchell's proposed Columbia Valley Authority.

Woods, who returned recently from an inspection of the TVA, said residents of the Tennessee valley regard the TVA as a success and declared that such a coordinating agency should be set up to develop the Columbia basin.

He was convinced, he said, that TVA had done its work successfully for three reasons, which he described as "local autonomy, freedom from political control, and excellent personnel."

The group questioned Senator Mitchell as to the authority lodged with a national river resources board headed by the Secretary of the Interior. He said the national board's capacity would be advisory only, under terms of his bill, and that ultimate authority over strictly regional planning would rest with the regional board. Committee amendments, however, will undoubtedly be made by Congress, he added.

Dr. Paul J. Raver, Bonneville Administrator, last month also endorsed some sort of a CVA, asserting that such an authority offers the people the first real opportunity for decentraliza-

tion of the power which has gradually grown up in the Federal government.

Speaking at Naches, Washington, at a banquet of the Naches Commercial Club, the Bonneville Administrator said an "authority" bill would do two things: First, it would reverse the trend of centralizing authority in Washington, D. C., by placing such authority on a regional basis; second, it would bring "some integration and harmony of all the bureaus which are operating in the region."

Dr. Raver did not endorse any specific legislation to create a CVA but asserted, after discussing the bill introduced by Senator Mitchell: "There is no reason for discarding the whole question of a valley authority, just because we don't agree with some of the provisions of existing proposed legislation."

He also asserted that the TVA program should not be transplanted into the Columbia valley, because the problems of the Tennessee valley were different from those confronting the Columbia.

### Court Upholds PUD

THE state supreme court last month issued a 6-to-3 decision validating the procedure by which Okanogan Public Utility District No. 1 proposed to issue \$2,702,000 in revenue bonds to purchase condemned properties of the Washington Water Power Company in Okanogan county. The court, ruling on a deal which has been pending ever since the PUD commenced condemnation proceedings against the power company in December, 1939, affirmed a Whatcom County Superior Court decision of January 5, 1945, which dismissed an action brought by the power company and other Okanogan county taxpayers to enjoin the PUD from issuing bonds in excess of \$2,000,000 provided for in a resolution passed by the PUD commissioners at the time it began condemnation.

The injunction proceeding was heard in Whatcom county before Superior Judge Ralph O. Olson.

# The Latest Utility Rulings

## Gas Production Properties Included in Basis for Rate Making



**O**RDERS of the Federal Power Commission reducing interstate wholesale rates of the Colorado Interstate Gas Company and the Canadian River Gas Company [43 PUR(NS) 205, affirmed in 54 PUR(NS) 1] have been sustained by the Supreme Court. Criticism of commission action had been directed at the allocation of cost of service, the fixing of a rate for gas sold for resale to direct industrial customers, inclusion of producing and gathering facilities in the rate base, and the use of original cost of production and gathering facilities for rate making.

Canadian produces gas from its own properties and sells most of it to Colorado Interstate. It sells some gas at the wellhead and along the Texas portion of its transmission line for consumption in Texas and sells gas for resale in New Mexico. The pipe line of Colorado Interstate extends to Denver. It sells gas to various distributing companies for resale by them in Colorado and at a few points in Wyoming. It also sells gas from its pipe line direct to industrial customers in Colorado for their own use. The commission found that the properties of these companies had been operated as a single enterprise.

The commission had allocated the cost of service without separating the physical property used in intrastate and interstate business and for sales to industrial consumers and sales of gas for resale. The court declared that the problem was to allocate to each class of the business its fair share of cost. Reductions ordered were measured solely by excess revenues over costs in the regulated part of the business. Congress had prescribed no formula for allocation, and

the court could not say that under the Natural Gas Act the commission could employ only one allocation formula and that that formula must entail a segregation of property. "Allocation of cost is not a matter for the slide rule."

A blanket reduction had been ordered in the sale price of all types of gas sold by Canadian to Colorado Interstate. Canadian maintained that the commission had no authority to fix the rate on the sale of gas sold for resale to direct industrial customers. The court overruled this objection, finding no warrant for saying that the words "ultimate distribution to the public" in the Natural Gas Act implied distribution to domestic users alone.

The court divided, with four justices dissenting, on the question whether the commission had exceeded its jurisdiction by including Canadian gas wells and gathering facilities, together with all its transportation and distribution facilities, in a single rate base. The Natural Gas Act bars commission jurisdiction over the production or gathering of natural gas, but the majority of the court held that inclusion of these facilities in the rate base and determining the expenses incident thereto for the purpose of determining the reasonableness of rates subject to the commission's jurisdiction were within the power of the commission.

The court refused to accept the theory that the correct procedure is for the commission to allow in the operating expenses of a regulated company the "fair field price" or "fair market value" of purchased gas which finds its way into the transmission lines for interstate transportation and sale.

Objections to the inclusion of produc-

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tion and gathering facilities at actual legitimate cost instead of present value were also rejected. The court would not say that the commission was under a duty to put the leaseholds into the rate base at a valuation urged by Canadian, since this would be in contradiction of its earlier rulings that the commission is not bound to the use of any single formula in determining rates.

Canadian and Colorado Interstate had their origin in an agreement among

three oil companies. Leaseholds and producing properties, pursuant to the agreement, were transferred to Canadian for a cash consideration of \$5,000,000. The court upheld the action of the commission in rejecting \$5,000,000 as the rate base for these properties and substituting the original cost to the transferor. As between the companies, it was said there was no more than an inter-company profit. *Colorado Interstate Gas Co. v. Federal Power Commission et al.*



### Court Upholds Order Authorizing Interstate Gas Pipe Line

**O**BJECTIONS by the Louisiana Department of Conservation and the Louisiana Public Service Commission to an order of the Federal Power Commission authorizing pipe-line construction by the Memphis Natural Gas Company were overruled by the United States Circuit Court of Appeals for the Fifth Circuit.

The main contention was that the order was invalid because it would permit the withdrawal of gas for an economically wasteful use, the inferior one of being burned under boilers.

Section 7(c) of the Natural Gas Act provides that a certificate for pipe-line construction shall be issued to a qualified applicant, able and willing to furnish the proposed service, when the service is required by public convenience and necessity. The state agencies and others joining them in opposition contended that the words "public convenience and necessity" include considerations of conservation of natural gas.

The applicant and those aligned with it on the side of the commission insisted that in granting or refusing certificates, the kind of uses, viewed from the standpoint of inferior and superior, to which the gas is to be put, is of no significance, or at least of very little significance. They argued that the commission is concerned only with whether there is a public need or demand.

The commission, while of the opinion

that the statute leaves questions of conservation to state authorities and does not make the granting or refusal of certificates turn upon such questions, pointed out that it did give sympathetic consideration to the fact of inferior use along with all other facts in the case. It insisted that the record as a whole furnished no basis for a claim that its finding that authorization was required was without support in the evidence. The court said it agreed with the commission, and continued:

Assuming, without deciding, that the commission could properly consider as one of the facts entering into the granting or denial of the certificates the uses to which the gas was to be put, that is, that considerations of conservation had a place in such granting or refusal, we think it quite plain that the statute does not make such matters determinative. If, therefore, we assume, as the petitioners insist we should, that it was part of the commission's duty to consider, as one of the underlying facts to be determined, whether the gas being taken is for inferior, and therefore wasteful, uses, we should still, upon this record, have to decline to hold that, in exercising, the commission has abused, its powers under the act. Normally it is for the commission to draw the conclusion that the present or future public convenience and necessity either requires or does not require the granting of a certificate. Normally an order granting a certificate may be set aside only when the evidence admits of but one conclusion, that its granting will not serve public convenience and necessity, or that the applicant is not in a position to supply the need. Inferior and superior uses aside, the evidence in this case leaves

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in no doubt that there was a public need. It fully supports the finding, too, that the applicant has contracts which put it in a position to fully supply that need. As we read the statute and the authorities under it, the facts, on which alone petitioners rely, that the gas is to be taken out of the state to be used for burning under boilers, that this

is an inferior use, and that Louisiana objects to its being so taken, do not furnish sufficient basis for finding that the order of the commission in granting the certificates was contrary to law.

*Department of Conservation of Louisiana et al. v Federal Power Commission.*



### Service Improvement Saves Carrier from Entry of Competition

WHEN a new company applied to the Ohio commission for authority to operate over a route in the territory served by another company, the commission made an order allowing the present operator sixty days within which to provide additional service. The present carrier appealed to the supreme court. The appellant, however, complied with the order and expanded service within the 60-day period. The commission then denied the application, and an appeal was taken from this order.

The court sustained the commission notwithstanding contentions by the applicant relating to waiver and estoppel and denial of equal protection of the laws. The court ruled that a carrier protesting against the granting of a certificate of convenience under these circumstances is not, by taking an appeal from the order for improvement, barred by waiver or

estoppel from showing compliance with the order on further hearing on the application.

The fact that during the pendency of the first appeal the commission had conducted a hearing and denied the application for a certificate upon the ground that the order to improve service had been complied with did not, according to the court, give the applicable statute an operative effect which denied the applicant the equal protection of the laws.

With respect to the hearing before the commission, it was ruled that the commission might admit and consider evidence for the whole period subsequent to the order for improvement of service and determine its adequacy as of the time of the hearing, notwithstanding the limit for compliance was originally fixed at sixty days. *Boak v. Public Utilities Commission*, 59 NE(2d) 602.



### Relationship between Telephone Move and Reconnection Charges

THE Wisconsin commission, in authorizing an increase in telephone rates, disapproved a request for permission to apply a charge of \$2 for moving telephones and \$1 for installation and reconnection of telephones. The commission's experience, it was said, had shown that a higher charge for moves than for service connections is often unworkable because the subscriber may avoid the higher charge for a move by requesting that service be discontinued and later have it reestablished at the new location.

The commission authorized a charge

of \$1.50 for moves and installations and a reconnection charge of \$1.

Present rates were shown to be below the average of those in surrounding communities. Rates for urban service were proportionately lower than those for rural service. It was pointed out that rural service was of less value than urban service because of the difficulty of distinguishing code rings and disturbances caused by companions on party lines. This and other factors, said the commission, were to be considered in determining the value of service. Moreover, the

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utility should use utmost diligence in instructing operators in manual code ringing, and every effort should be made to locate rural subscribers maliciously interfering with service.

An application for authority to install a new switchboard was dismissed without prejudice. The company had received bids on several types of installations, but the management had not com-

mitted itself to installation of a definite type and had made no definite plans for acquiring a switchboard. No data were available on the extent of rebuilding the outside plant that might be required to effect a change in the method of operation, nor had a survey of subscribers' instruments been made to learn how many would be replaced. *Re Tenney Telephone Co. (2-U-2005, CA-2151).*



### Convenience Rather Than Necessity Held Insufficient to Support Commission Order

**A**N order of the Oklahoma commission requiring the maintenance of station agency service was reversed by the supreme court of Oklahoma on the ground that the order imposed a burden upon the railroad which it should not be required to bear. The evidence showed that discontinuance of the agency service would not result in any serious inconvenience to passengers or shippers.

The court ruled that while in the performance of an absolute duty the question of expense is not to be considered, where the duty sought to be enforced is

one of additional convenience rather than necessity, the question of expense to the company and relative benefit to the public is the deciding factor and may not be disregarded.

Facilities to be furnished at any station, the court held, need only be adequate to the requirement of the station and should be in a measure commensurate with the patronage and receipts from that portion of the public to whom the service is rendered. *St. Louis-San Francisco Railway Co. v. State, 155 P(2d) 718.*



### Combined Billing for Electric Service To Theaters

**A**CORPORATION owning several theaters obtained from the New York commission an order requiring the Central New York Power Corporation to combine readings of meters at each location. Service at the several locations was installed many years ago at a time when there were separate classifications for lighting and for power. About 1934 a single classification for both lighting and power was filed, and until April, 1942, meter readings at each location were combined for billing purposes, at which time the light and power services were again billed separately.

The company urged that separate billing was in conformity with an order issued in March, 1942, which provided that

"each service supply shall be billed under a separate contract." The company contended that provisions of that order could not be changed without specific order of the commission.

The commission pointed out that this order was adopted prior to the adoption of its order in *Re Combined Billing for Electric Service (1944) 54 PUR(NS) 295*, to which proceeding the company was a party. The order in that case, it was held, superseded the prior order, and the commission could entertain a petition, if the facts warranted, to require the combining of meter readings where it was not feasible to have a single meter. Commissioner Brewster, summarizing for the commission, said:

## THE LATEST UTILITY RULINGS

The meters at each location are located not more than 6 feet apart and a totalizing meter could be installed which would register the use.

The use of one watt-hour meter (not totalizing) registering both lighting and power service and the installation of a 2-1 transformer, while possible for many types of use, is not satisfactory in motion picture

theaters. The totalizing type of watt-hour meter is expensive and there is some doubt that such meters could be obtained under present tight priorities existing in meter manufacturing.

*Schine Circuit, Inc. v. Central New York Power Corp. (Case 11631).*



### Investigation of Unauthorized Sale to City Ordered

UPON receiving information that the Springfield Gas & Electric Company had disposed of its public utility property by a sale to the city of Springfield without first securing commission authorization, the Missouri commission ordered the company to show cause why it had made such disposition. It was further ordered to show cause why such disposition was not unlawful and void under the Missouri statutes, and therefore detrimental to the public interest, and why it should not be ordered to resume the operation of its properties.

Commissioner Henson, in a dissenting

opinion, said that this course was wholly unnecessary and tended to confuse issues before the commission in a pending case, which, among other things, asked approval of the transfer. Even if the works and system had been transferred, there was no hint that as a result thereof the utility services had ceased or been impaired.

The paramount interest of the commission, he said, was mainly in services. Statutory remedies, he said, could be enforced regardless of the determination in the pending case. *Re Springfield Gas & Electric Co. (Case No. 10,628).*



### Status of Truck Operator

THE Pennsylvania commission assumed authority over the operator of a truck who proposed to transport merchandise as a contract carrier. He had entered into a written agreement with a shipper to lease his truck at a rental computed upon the basis of 1½ per cent of the value of the merchandise transported and was guaranteed a minimum compensation of \$50 weekly.

The shipper agreed to use the truck to transport merchandise. The truck owner agreed to provide all services in connection with storage and maintenance of the truck. He also agreed to carry adequate insurance, and he warranted the mechanical safety of the truck.

The company agreed to provide the driver and to carry and pay workmen's compensation insurance, social security, and unemployment compensation taxes. Under this agreement the company engaged the truck owner as the driver and

paid him for such service a weekly wage of \$26 less social security tax. The company did not claim exclusive right to the truck but permitted its owner to use it for his own purposes after working hours.

The commission said that in arriving at its conclusion it did not give concern solely to the rights and duties as expressed in the agreement, since contracts are incidents to almost every form of transportation for compensation and merely portray the assertions or agreement covering the duties and rights of the parties. The commission did, however, consider the element of control vital in its determination and determined that the truck owner was the party in whom such right of control and direction rested. The shipper merely instructed him to take its goods to a certain point. *Re Ferres (Application Docket No. 61311).*

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### Other Important Rulings

**T**HE supreme court of Georgia held that pick-up and delivery service furnished by a railway express company engaged principally in the carriage of express upon railroad trains, for which its published and lawful charges are based upon a station-to-station basis, according to zones, constitutes common carriage although no specific, extra, or additional charge is made for the pick-up and delivery service over and beyond the filed and published charge for rail transportation, which charge its customers pay whether they avail themselves of the pick-up and delivery service or not. *Railway Express Agency, Inc. v. Cook*, 32 SE(2d) 822.

The supreme court of Missouri upheld the right of the city of Springfield to issue public utility revenue bonds for the purpose of acquiring an electric light, gas, heating, and transportation system. A contention that the city could not purchase the common stock of the company in view of a prohibition against a city becoming a subscriber to the capital stock of any corporation was overruled, with the statement that the city was not subscribing to the stock and becoming a part owner, but had contracted to buy all the stock as a preliminary to acquisition of the property and dissolution of the corporation. *City of Springfield v. Monday*, 185 SW(2d) 788.

The supreme court of Arkansas declared unconstitutional — because it would create a monopoly—a statute providing that if the governing bodies of first-class cities find, upon entertaining an application for authority to conduct competing taxicab service, that existing taxicab service is inadequate, they must give existing carriers an opportunity to improve their service to meet the measures of adequacy, and that they must reject competitive applications upon improvement of such service. *North Little*

*Rock Transportation Co. v. North Little Rock*, 184 SW(2d) 52.

The supreme court of Ohio held that the commission may prescribe rules and regulations governing joint passenger rates by motor transportation companies and that it is neither unlawful nor unreasonable for the commission to permit and approve a joint passenger rate adopted and filed by such companies in accordance with an administrative order of the commission. *Valley Public Service Co. v. Public Utilities Commission*, 59 NE(2d) 40.

The Pennsylvania commission held that costs incurred in the determination of damages resulting from the separation of a grade crossing are not allowable as damages for property taken, injured, or destroyed by reason of the construction of the improved crossing. *Department of Highways v. Reading Co.* (Complaint Docket No. 12801).

The Securities and Exchange Commission denied a petition by a common stockholder of a holding company for amendment of an order in proceedings under § 11(b)(2) [50 PUR(NS) 212], changing the method of electing directors. *Re United Corp.* (File No. 59-25, Release No. 5634).

The United States Court of Appeals, District of Columbia, reversed an order of the Civil Aeronautics Board granting temporary authority to engage in air transportation, holding that the board had abused its discretion in denying a motion for rehearing relating to the authorization, where the only evidence of a proper organizational basis supporting the grant related to the qualifications of one man who was no longer available to the applicant. *Braniff Airways, Inc. v. Civil Aeronautics Board*, 147 F(2d) 152.

NOTE.—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports*.

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# *Public Utilities Reports*

COMPRISING THE DECISIONS, ORDERS, AND  
RECOMMENDATIONS OF COURTS AND COMMISSIONS



VOLUME 57 PUR(NS)

NUMBER 5

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MISSOURI PUBLIC SERVICE COMMISSION

Public Service Commission of  
Missouri et al.  
v.  
Southwestern Bell Telephone Company

Nos. 9279, 8112, 9280, 9528  
March 5, 1945

**P**ROCEEDING to obtain appraisal, audit, and other information relating to property of statewide telephone company, consolidated with other proceedings relating to same subject; determinations made as to reproduction cost, original cost, and related matters.

*Valuation, § 401 — Scope of proceeding — Property valuation — Other questions.*

1. A proceeding initiated to obtain information which might be helpful in a determination of fair value of property, during which evidence relating to rates has been objected to and excluded, should be treated as a valuation proceeding and not as a rate case, and to preserve due process the Commission's findings must be limited accordingly, p. 288.

*Valuation, § 69.1 — Basis for estimate — Price quotations of affiliates.*

2. A common parentage between a major materialman and a utility, although subject to close scrutiny, does not in and of itself constitute a badge of fraud or prove prima facie that the use of intercompany price quotations in estimates of reproduction cost and original cost has resulted in a distorted or inflated appraisal, p. 294.

*Valuation, § 69.1 — Basis for estimate — Price quotations of affiliates.*

3. A report of the Commission's staff on reproduction cost and estimates of original cost of telephone property should not be rejected as unreliable, nor should the Commission undertake to revise the figures to allow for any excess, simply because they are based in part upon price quotations of a manufacturing company affiliated with the telephone company, where substantial evidence has been introduced to show that earnings of the manufacturing company have averaged 5.8 per cent (being less than profits of similar corporations) and an objector has offered no proof as to a reliable differential whereby the influence, if any, of this intercorporate relation upon intra-system price lists has been measured or by which the Commission can discount the prices quoted to any lower level, p. 294.

*Valuation, § 77 — Reproduction cost — Piecemeal appraisal.*

4. An estimate of reproduction of a statewide telephone system should not be rejected or revised on the ground that reproduction costs of buildings were calculated on the assumption that each building would be covered by a separate construction contract (a piecemeal appraisal instead of a com-

## MISSOURI PUBLIC SERVICE COMMISSION

putation on the assumption that all buildings would have been included as a unit in a single contract) where there is a heterogeneous body of property as to which physical location is not a controlling factor and where it appears that the end result would not be materially different if another procedure were followed, p. 295.

### *Valuation, § 140 — Interest during construction.*

5. Calculation of interest during construction of telephone property at an over-all interest rate of 6 per cent per annum, instead of a lower rate which might be available for a parent company to its subsidiaries, is not erroneous, in view of the basic assumption in a reproduction cost estimate that a new enterprise not yet a going concern would raise the money needed for construction purposes under the handicap of being a new enterprise, p. 297.

### *Valuation, § 135 — Engineering and superintendence.*

6. An allowance of 5 per cent for engineering and superintendence, based on the experience of a telephone company over an 11-year period, should not be reduced to 3.5 per cent to reflect company experience during the 3-year period covered by the hypothetical construction program, where the construction period has tapered off in later years so that estimates based solely on those later years would not reflect the actual facts as closely as those derived from the entire period, p. 297.

### *Valuation, § 144 — Preliminary, organization, legal, administrative, and miscellaneous expense.*

7. An allowance of 2 per cent of prime construction cost for preliminary, organization, legal, administrative, and miscellaneous expense should not be reduced on the ground that a telephone company's recent experience indicates that less than one per cent was actually incurred within this category, since some allowance is necessary to cover those items which in the nature of things would arise in the initial stages of the enterprise and would not be incurred in the later period, p. 298.

### *Valuation, § 125 — Interest and taxes on land.*

8. Inclusion of interest and taxes on land is consistent with established practice where nothing is added to fair market value of unimproved land, but carrying charges are added because the company would incur costs in improving real estate for telephone purposes, requiring money to buy and hold the real estate and to pay the taxes between the inception of construction and operation of the property, p. 298.

### *Valuation, § 80 — Reproduction cost — Labor rates.*

9. Labor rates used in a reproduction cost appraisal are not shown to be excessive because they are higher than the rate of pay on temporary relief jobs for the government under WPA, where it is a matter of common knowledge that the pay scale of WPA would not control and did not control the general labor markets, particularly in those skilled and semiskilled categories of labor which would have been required on construction of telephone plant, p. 299.

### *Valuation, § 19 — Trended appraisals.*

10. Section 5679, Rev Stats Mo 1939, providing for Commission valuation of utility property, contemplates that trending will be employed where feasible to translate valuations as of a certain day, under conditions then existing which have been established by formal findings, into terms of conditions existing at a later date, with adjustments for intervening capital changes, in order to obviate successive inventorying of property, p. 299.

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### *Valuation, § 19 — Trended appraisals — Index numbers.*

11. A base inventory and appraisal may be extended with a high degree of accuracy by using index numbers scientifically developed to reflect changes in prices with reference to a particular property, so that the end result may be safely used in lieu of a complete relisting and repricing of the property in detail, p. 299.

### *Apportionment, § 61 — Telephone properties — Station-to-station method.*

12. The station-to-station method rather than the board-to-board method should be used in separating properties of a statewide telephone company rendering local and long-distance service, p. 302.

### *Valuation, § 75 — Determination of reproduction cost.*

Description by Missouri Commission of procedure followed by its staff in determining cost of reproduction of statewide telephone properties, p. 262.

### *Apportionment, § 61 — Telephone property.*

Description by Missouri Commission of the separation and allocation of properties of statewide telephone company, p. 266.

### *Valuation, § 67 — Determination of original cost.*

Description by Missouri Commission of practices followed by Commission accountants in determining original cost of statewide telephone property, p. 276.

### *Rates, § 538 — Statewide basis — Telephone company.*

Declaration of policy of Missouri Commission as to the fixing of telephone rates upon a statewide rather than a local exchange basis, p. 303.

By the COMMISSION:

#### *Foreword*

In order to forestall any possibility of confusion on the part of those who have occasion to read the documents which are now being issued in this matter, a preliminary word of explanation may be in order.

On account of the magnitude and complexity of the factual basis for the Commission's action in this case, it has been deemed advisable to prepare and issue two separate documents in this instance instead of a single report and order in accordance with the usual procedure.

In logical order, this report is the first of those documents and contains a narrative statement of the record and the evidence, an analysis of the

issues arising in the course of the proceedings and a statement and discussion of the Commission's views with respect to those issues and the reasons supporting the action taken herein at this time.

The second document entitled "Findings and Orders," contains a concise official statement of the formal findings of fact and the orders which the Commission considers it should make in this case. [See p. 312.]

The relation between these two documents and the reasons for so separating the report from the findings and orders are fully discussed hereafter. At this point, it seems entirely sufficient merely to call attention to the fact that they have been so separated.

## MISSOURI PUBLIC SERVICE COMMISSION

[Editor's Summary—Public Service Commission v. Southwestern Bell Telephone Company, No. 9279, was an original investigation instituted by Commission order on November 25, 1936, under the provisions of § 5679, Rev Stats Mo 1939, to ascertain the value of all the property of the company within the jurisdiction of the Commission actually used in public service. The Commission's detailed description of this proceeding, omitted here, shows that an inventory and appraisal was made by its engineering department and an audit of books, records, and accounts was made by its accounting department. This represented the first step taken in Missouri toward a complete and comprehensive survey for the purpose of regulation of properties of the Bell System devoted to public service in the state. In 1915 the Commission fixed the fair value of the property of the Southwestern Telegraph and Telephone Company used and useful in the public service connected with the St. Louis Exchange on December 31, 1913, at \$8,500,000 (8 Mo PSCR 433). Also, in 1915, the Commission found the fair value of the property of the local exchange of the same company at Caruthersville, Missouri, to have been \$25,000 on February 26, 1914 (2 Mo PSCR 492, PUR1915E 1087). In 1918 the Commission found that the fair value of the property used by The Missouri & Kansas Telephone Company in rendering telephone service at Springfield, Missouri, was \$815,000 on September 30, 1916 (6 Mo PSCR 279).

[On August 4, 1919, the Commission issued an order questioning the

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continuance of the rates put into effect by the Postmaster General for the company while it was operated by the Federal government in 1918 and 1919. Circumstances did not then permit the Commission to make an inventory and valuation of all of the company's property in the state. At that time the Commission found (tentatively) that the value of the company's property in the state, exclusive of that at Kansas City and Independence, was \$20,400,000. This finding was based upon estimates of reproduction cost new, reproduction cost new less depreciation, and original cost supplied by the company as modified by calculations based on comparisons with the Commission's figures in the St. Louis, Caruthersville, and Springfield cases (*supra*) (8 Mo PSCR 487). That action was affirmed by the supreme court of Missouri (State ex rel. Southwestern Bell Teleph. Co. v. Public Service Commission, PUR1922A 773, 233 SW 425). This result was challenged on constitutional grounds in the Supreme Court of the United States and the judgment of the supreme court of Missouri was reversed, the Supreme Court of the United States stating that in its judgment the proof showed that the valuation should have been \$25,000,000 (Missouri ex rel. Southwestern Bell Teleph. Co. v. Public Service Commission, 262 US 276, 67 L ed 981, PUR1923C 193, 43 S Ct 544, 31 ALR 807).

[It was to avoid the deficiencies in essential basic data that existed in the former Southwestern Bell Case that the present investigation was undertaken.

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[The Grover Case, No. 8112, resulted from a complaint against rates in Kansas City, filed on June 27, 1932. The St. Louis Case, No. 9280, resulted from a complaint filed on November 27, 1936, relating to the reasonableness of rates in the St. Louis exchange system. The Joplin Case, No. 9528, resulted from a petition filed March 16, 1938, against rates in the city of Joplin. These cases had been consolidated by the Commission with its proceedings in Public Service Commission v. Southwestern Bell Teleph. Co. No. 9279.

[The engineering and accounting departments of the Commission proceeded in accordance with standard practices and methods to make a complete investigation. They made an underlying inventory, appraisal, and original cost statement as of December 31, 1938, and supplemented this to reflect property changes and price changes as of December 31, 1941. Their reports of inventory and appraisal, separation reports, and audits of accounts were then filed with the Commission.

[After due notice and hearing the case was submitted on the record and taken under advisement by the Commission on August 12, 1943. Thereafter briefs were filed.

[The evidence consisted of the reports by the Commission's staff and other evidence, including stipulations reviewed herein by the Commission.

[The properties employed by the company in rendering service in the state consist mainly of telephone instruments, facilities and accessories for their interconnection, operation, and maintenance. Central offices have been grouped into local exchange

areas. In the smaller communities local exchange areas consist of the territory, urban and rural, surrounding a single central office. In metropolitan centers districts are served by numbers of interconnected local exchanges or central offices. These district exchange areas have been developed over the years in response to changes in density of population and impact of demand for local exchange service without regard for state lines or city limits.

[The property was in the process of being assembled into the system over a period of nearly sixty years. The company was incorporated in Missouri in 1882, as the Missouri and Kansas Telephone Company, in order to consolidate a number of local exchanges and toll lines. The company grew to its present stature through mergers with other established companies, purchases of all or parts of the operating assets of such companies, and by original construction. By change of name the company became the Southwestern Bell Telephone Company in 1917. It is one of the companies associated under the American Telephone and Telegraph Company in the Bell System.

[The property is all physically situated in Missouri, with certain exceptions. On the western side of the state, where no physical barrier exists, as the Mississippi river constitutes a barrier on the east, there are three instances of property situated in the state of Kansas bearing such a relationship to intra-Missouri service that those properties must be taken into account in any proceeding involving rate regulation. Hence, this

## MISSOURI PUBLIC SERVICE COMMISSION

property had been inventoried with the Missouri property. The Kansas City District Exchange Area presents a typical picture of intermingling and overlapping of jurisdiction through natural developments of utilities serving contiguous border cities and their environs, constituting a single homogeneous metropolitan district.

[In order to render this kind of service throughout the district exchange area, the property of the company within the area is so situated and operated that it constitutes a single, indivisible unit which as a practical matter is not susceptible of separation for purposes of valuation as between the states of Missouri and Kansas. Property physically located in Kansas contributes to the service of the telephone stations in Missouri and vice versa. The property in the area is treated by the company as a single composite operating unit and in the ordinary course of business no complete account is taken of the fact that the Missouri-Kansas state line divides the property into two distinct parts for jurisdictional purposes. For this reason, the property of the company in Kansas within the Kansas City District Exchange Area had been included in the inventory of the Missouri property.

[In a limited way the same situation exists as to the St. Joseph Exchange Area. It was not considered feasible to separate this property, although a few telephone stations were located in Kansas.

[The Kansas City-Joplin Buried Cable Lead, among other uses, is used by the company in rendering service between Kansas City, Missouri, and Joplin, Missouri. It in-

cludes certain rights of way, land, buildings, central office equipment, station apparatus, and other property physically located in Kansas but used directly in intra-Missouri service. Because of the bearing it has upon the problem of valuation and regulation in Missouri, that portion of this property in actual use in rendering intra-Missouri service was included in "Kansas Toll" in the inventory of toll property.]

### *The Appraisal of the Property as of December 31, 1938*

When the property of the company included in the investigation had been reduced to the terms of an inventory, as above described, the Commission's engineers then proceeded to appraise the property in terms of (a) "Cost of Reproduction New" and (b) "Cost of Reproduction New Less Depreciation."

#### *(a) Cost of Reproduction New*

With the picture before them of all of the property of the company on December 31, 1938, bearing upon its operations in Missouri, as contained in the inventory, the Commission's engineers, following standard engineering practices, projected a construction program which, in usual and ordinary course, would reproduce the property shown by the inventory as an entirely new plant complete and ready for operation as of December 31, 1938. They then computed all of the necessary costs which would have been incurred in the execution of that construction program in a good and workmanlike manner under conditions and circumstances existing at

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that time and at the places where the respective properties were located.

So far as possible the Commission's engineers endeavored to simulate and reflect the conditions which actually would have been encountered in the construction of the property as of that date and to compute the probable cost thereof as though the physical property had been reproduced at that time and at the places where it actually existed. The cost of construction materials, telephone, and other equipment were calculated upon the basis of the cost of new materials and equipment of like kind and quality in the lowest and best available open market therefor. The quantity of labor required to install the material and equipment was measured on the basis of labor performances developed from an analysis of company records and the experience of other utilities and contractors on work of like kind. The rates of pay for labor, both skilled and unskilled, were developed from the experience of the company in the actual employment of labor engaged in construction work during the month of December, 1938, separately for the St. Louis District Exchange Area, the Kansas City District Exchange Area, and the state as a whole outside of these metropolitan districts. Consideration was also given in this connection to the union scales in force for the various classes of labor and the wage rates paid on WPA and PWA projects in Missouri. Allowance was also made for those indirect material and labor costs which are associated with projects of this kind, but do not appear in a calculation of costs on an itemized basis.

In addition to the direct material

and labor costs entering into the construction of a plant of this kind, there are various capital costs which are incurred between the inception of the enterprise and the operation of the plant in public service which are uniformly and ordinarily considered as proper and necessary costs of construction. These indirect costs are classed as general overheads and include the estimated cost of promoting the enterprise, organizing it, and administering it up to the point where construction ends and operations begin. It also includes estimated cost of the engineering which would be required in the construction of the project and of the superintendence needed to direct and supervise the construction program, at least in so far as those functions would be performed by the company and not by independent contractors. It also includes the taxes, interest, and rent which would accrue during the estimated period of construction.

In the present case the Commission's engineers gave careful consideration in this connection to the actual experience of the company over a period of years with respect to these elements of the cost of construction, together with other facts and circumstances bearing thereon. From these data, they developed ratios which in their judgment fairly measured the general overheads or indirect costs as above described which would be incurred by the company during the period of construction prior to the time it became an operating enterprise.

These computations of material, labor and overhead costs were made, as the physical inventory was made,

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separately for each individual exchange area, the toll property and other property included the inventory. The total of these figures represents the estimate of the Commission engineers of the cost of reproduction new of all of the property of the Southwestern Bell Telephone Company within the state of Missouri and that part of its property not within the state which bears directly upon the problem of valuation involved here as described above.

### *(b) Cost of Reproduction Less Depreciation*

After the Commission's engineers had thus estimated the cost of reproducing the plant new as it was on December 31, 1938, they then recomputed those estimates to reflect the actual condition of the property as they found it in order to express the appraisal of the property in terms of what is commonly called "cost of reproduction new less depreciation."

This required a determination of the loss in service value which had been sustained in the depreciable property due to exhaustion, wear and tear, the action of the elements, inadequacy, obsolescence, and all of those other factors which are commonly associated with the general term "depreciation." This computation, of course, excluded land owned by the company but included the buildings on the land and all other property except land.

The extent of the depreciation was determined by physical inspection by members of the Commission's staff of the various component parts of the buildings, central office equipment, station apparatus, pole lines, under-

ground conduits, cables, aerial wire, furniture, office equipment, vehicles, and all other depreciable property included in the inventory. This inspection, which included appropriate tests where tests were necessary to ascertain the facts, was sufficiently extensive to provide, in connection with a consideration of the practices of the company with reference to the maintenance of its property, percentages which in the judgment of the Commission's engineers, would reliably express the "per cent condition" of the particular units of property and provide a yardstick whereby to measure the difference between the actual condition of the component parts as found by the Commission's engineers upon inspection and corresponding parts in a new plant. By applying these percentages to the reproduction cost new as previously ascertained of the particular items in the inventory, the Commission engineers' estimate of the cost of reproduction new less depreciation for the various component parts of this property was obtained. The cumulation of these individual estimates provided the composite estimates on this basis as to the property as a whole.

In this instance, as in the case of the inventory and the appraisal of the reproduction cost new, these estimates were made separately for each exchange area, the toll property and other property, and the total of the figures so developed represents the Commission engineers' appraisal of the property of the company as set forth in the appraisals in its actual condition on December 31, 1938.

As in the case of the inventory, these appraisals of the Commission's

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engineers speak for themselves. In the very nature of things this approach to the problem of valuation creates many and various difficult problems both of substance and procedure, about which the minds of men differ. Some of those differences found their way into this record and will be stated and discussed in proper time: We are convinced, from an examination of the report of Commission's engineers embodied in the appraisal of Southwestern Bell Telephone Company as of December 31, 1938 (Commission's Exhibit CE-1), and the testimony of the witnesses, that the estimates of the cost of reproduction new and the cost of reproduction new less depreciation of the property of the company as therein stated were carefully and skillfully prepared, are true and correct and represent as fair and reasonable an approximation of these factors as the facts and circumstances in this instance permit.

### *The Classification of the Property*

After the total property had been so ascertained, inventoried, and appraised on each of the bases described, the Commission's engineers found that there was a substantial amount of the property that was not used or useful in the public service or was being used, in whole or in part, in rendering service in other states included within the company's system, and for that reason was not within our jurisdiction and was assignable, either as a whole or by apportionment, to other states.

The property not used or useful in the public service included, for example, those parts of the company's buildings, particularly at St. Louis

and Kansas City, which are occupied by nonutility tenants, certain parts of the company's lands, buildings, and central office equipment, which are leased to the American Telephone and Telegraph Company, certain lands and buildings and miscellaneous physical property which the company is holding for sale, certain land, underground conduit, and cable, which either because it consists of duplicative installations acquired from other companies or installations in excess of the needs of the company now or in the near future are not in use and hence make no contribution to the service and operations of the company.

Property assignable to other states consisted of property which is used for purposes either common to the entire company or common to western Missouri and Kansas. This distinction arises out of the fact that the company maintains its general offices for the entire system in its office building in St. Louis and an administrative staff for a region which embraces territory in the western part of Missouri and all of the state of Kansas in its building in Kansas City, Missouri. The property affected by this common use consisted of land, buildings, station apparatus, station installations, private branch exchanges, aerial cable, furniture, office equipment, etc. Upon the basis of a study of actual operating conditions, a division was made so that the portion of the company's utility property in Missouri which had no bearing upon the value of the Missouri property could be separately stated as property assignable to other states.

After these irrelevant elements had

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been segregated and separately stated, the balance of the company's property, which constituted the bulk of the property involved, was identified under the caption "Property Used in Public Service."

### *The Separation and Allocation of the Property*

At this point the Commission's staff encountered that combination of complex problems which are present in all valuations of utility properties which are owned and operated on a regional rather than a local basis and where multiple services are rendered through the same facilities.

These difficulties arise out of two facts: (1) The fact that a portion of the property in the system enters into the service at more than one location; (2) The fact that the property entering into the service at each location is used to render several services which must be distinguished for jurisdictional and regulatory purposes.

The circumstances require a brief statement of the methods and procedures followed by the staff in this connection.

(1) *Separation and Allocation on a Local Basis.* As appears from the exhibits, the inventory was made and the appraisal has been stated separately as to each local or district exchange area and as to the toll property. In each instance, the amounts shown in the inventory and appraisal represent property actually within and used exclusively for the rendition of service by that unit of property plus a portion of the company's property used in connection with that unit and other units in the company's system. In turn, those amounts exclude that por-

tion of the property which is physically associated with a particular exchange or the toll property, but which enters into the service rendered elsewhere and for that reason and to that extent is accounted for elsewhere.

The bases for the separation and allocation of the property common to two or more units were determined in accordance with actual studies and factual analyses made by the engineering and accounting departments of the Commission of the conditions and circumstances under which the various local units of property were operated, so that the amount allocated on this account to the respective local units would fairly and reasonably represent the fraction of such common property which entered into the operation of that particular unit.

(2) *Separation and Allocation on a Service Basis.* In the ordinary course of business, three general classes of service are rendered by and through the property of the company. In the inverse order of their relative importance, these services are: (1) interstate toll service, which includes calls into, out of and across the state of Missouri; (2) intrastate toll service, which includes calls between exchange areas within the state; and (3) local exchange service, which includes calls between telephone stations within the same local or district exchange areas.

The first class of service mentioned, being interstate in character, is not within our jurisdiction and hence the portion of the property utilized in the rendition of that service must be distinguished and separately measured and stated to the end that that use of

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the property will be recognized in the future in balancing the burden of operating costs and return as between that which is and that which is not within our jurisdiction.

The latter two classes of service are wholly intrastate and hence are wholly within our jurisdiction, but because these distinct services are rendered through common facilities at many points, it was necessary to ascertain to what extent this was true and to separate and allocate the property so as to recognize and reflect those facts.

The separations and allocations made for this purpose were computed by the application of factors developed to represent the comparative use of the property by the respective services. These factors were derived from extensive traffic surveys. These traffic surveys were made by the traffic department of the company under the supervision of representatives of the company and of the engineering department of the Commission. They were designed to disclose the number of calls arising in each of the three services, their length, the amount of work required, the uses to which each group of equipment or plant was put, etc., for a period of time adequate to reflect actual operating experience in the usual course of business at the time when and the place where they were made. Such surveys were made as to each local exchange, the zone and central offices in the district exchange areas, the repeater stations and the toll property generally. These surveys were correlated and summarized by the representatives of the company and of the engineering department of the

Commission in collaboration and thus the factors were developed by which the separation and allocation of the property between the respective services were determined.

### *"Board-to-Board" and "Station-to-Station" Separation*

At the time this investigation was made, the company's rates and practices were based upon what is known as the "board-to-board" method of accounting and price fixing. This method grew up with the business and is an arbitrary breakdown between local and long-distance service. It proceeds on the hypothesis that the two services are distinct, and that for purposes of fixing charges, the long-distance service is completely rendered between the toll switchboards through which exchanges are interconnected while all other service (with unimportant exceptions), rendered within the exchange area is local exchange service. Accordingly the charges for toll service were calculated upon the cost of operations and the value of the property directly involved only from the point of connection between the local and toll switchboards at the exchange where a long distance call originates and the point of connection between the toll and local switchboards at the exchange where the call is received.

In recent years there has developed another concept of price fixing for telephone service which proceeds on the hypothesis that, in truth and in fact, the transmission of a telephone call from the telephone station in a subscriber's home or place of business where it originates, through all of the intervening facilities to a similar tele-

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phone station in a distant exchange area is a complete and single service and that the real facts of the operation as well as fairness between patrons require that the charges for toll service be calculated upon the cost of operations and the value of the property involved from the originating telephone station to the receiving telephone station. In regulatory parlance this has become known as the "station-to-station" method of accounting and price fixing. In distinction from the old or "board-to-board" method which did not carry the pricing mechanism for toll service into the local exchange, the "station-to-station" method requires separations to be made within the local exchange so as fairly to reflect the function the local exchange performs in rendering long distance service. The ultimate purpose of the station-to-station method is to shift the burden of performing that function from the purely local business of the company, where the board-to-board method places it, to the toll business so that that burden will fall directly upon the subscribers in proportion to the actual use each makes and benefit he derives from the long distance service.

At the time the original investigation was in progress, the question of which of these two methods of computation should be used in fixing the charge for telephone service was much mooted over the country before the regulatory agencies and courts, both state and Federal. In its investigation the Commission's engineering department treated the question as an open question and made its studies as to the comparative uses of the property on both the "board-to-board" basis

and the "station-to-station" basis, in order that the Commission might have all of the information before it relating to this problem.

The facts and figures developed by the Commission's engineering department in this connection in terms of cost of reproduction new and cost of reproduction new less depreciation were presented as "Separation Reports," "Station-to-Station Separation," and "Board-to-Board Separation." Therein will be found a detailed analysis of the facts developed by the Commission's engineers on each of these two methods of apportionment with respect to each local exchange area in the state, the toll property involved and the state of Missouri as whole as of December 31, 1938 (see Commission's CE-2 and CE-3).

### *The Reappraisal of the Property as of December 31, 1941*

In the very nature of things, the job of assembling the data and preparing the inventory, appraisal, and separations of this property as have been described was a large undertaking which required a vast amount of time and labor on the part of the staff.

The inventory and appraisal as of December 31, 1938, were complete and ready for submission by June 1, 1940. The separation process, whereby the staff apportioned the appraisal of the property as of December 31, 1938, between the various localities and services on the board-to-board and station-to-station bases, as has been described, took a longer time. On that aspect of the matter, the report of the staff was completed

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and ready for submission on April 1, 1941.

Meanwhile conditions bearing directly upon the value of the company's property had changed substantially from what they were on December 31, 1938. It is proper to note in this connection that on April 1, 1941, the war in Europe had been in progress for nearly two years and our own entry into the struggle was only eight months away. As a result of natural growth and the stimulus of war activity, the company had experienced a large development in the territory in which its services were rendered and had expanded its plant and facilities accordingly. It had also experienced a sharp upturn in costs, both of equipment and labor.

For these reasons it was deemed proper for the staff to recast its computations so as to reflect the changes which had transpired in the meantime to the end that the Commission would be fully informed of all the facts bearing upon the value of the company's property under consideration.

December 31, 1941, was fixed as the date as of which the reappraisal would be made. The object of the staff in this connection was to bring down to that date the basic appraisals which it had prepared so as to show the condition of the company, in the particulars covered thereby, exactly three years later without incurring the delay and expense entailed in a complete physical inventory and original appraisal. This involved, of course, (1) the elimination from the prior appraisals of amounts representing units of property which meanwhile had been retired and the de-

termination of the property which was covered by the 1938 inventory and was still in service on December 31, 1941; (2) a reestimation of the cost of reproduction new and the cost of reproduction new less depreciation of the property that so survived, and (3) the determination and inclusion of the cost of reproduction new and the cost of reproduction new less depreciation of the property that had been added in that 3-year period, all on the basis of the separations and allocations between localities and classes of service as heretofore described.

In general, the methods followed by the staff in accomplishing this task were as follows:

### *The Elimination of Retirements*

The staff first undertook to determine how much of the property included in the inventory of December 31, 1938, was still in service and hence includible in the appraisal as of December 31, 1941, as property remaining in the inventory. The Commission's accounting department, from an examination of the books of the company covering the intervening three years, ascertained the amounts representing property that had been retired in each of the company's property accounts and furnished the engineering department with a statement thereof. The total of the retirements so ascertained was approximately \$17,000,000 according to the books. Of this amount, \$9,500,000 represented retirements of station apparatus, station installations and drop and block wires, which, as will be described later, were completely reinventoried and reappraised as of

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December 31, 1941; \$4,323,011 represented property which could be and was specifically identified in the inventory of 1938 in kind; and the balance, approximately \$3,225,000, represented property which the property accounts showed, in terms of dollars, had been retired, but which could not be identified in kind except by a complete new physical inventory. These retirements were then eliminated from the inventory and appraisal of December 31, 1938, either by deducting them specifically where that was possible or by translating the representative amounts as shown by the books, into corresponding amounts as shown by the appraisal by means of comparisons and computations. The residue represented property included in the inventory of December 31, 1938, which was still in service on December 31, 1941, and hence could be reliably reappraised by the application of price trends or multipliers which were determined by repricing the items to show the differences in costs which had occurred in the meantime. This process eliminated the necessity for a new counting and listing in terms of units and quantities.

### *Cost of Reproduction New as of December 31, 1941*

Various methods were used by the staff to estimate the cost of reproduction new of this property as of December 31, 1941. The method chosen in each case was that deemed most suited to the purpose in view, which was to translate the facts and figures contained in the inventory and appraisal of 1938 into terms reflecting conditions on December 31, 1941.

Rights of way were appraised in both instances at the original cost of the easements and associated expenses as shown by the company's books to have been incurred where structures were located on property owned by others.

Lands (separate from improvements) were included in the 1941 appraisal at the amounts contained in the 1938 appraisal, without change. The appraisals of land in 1938 had been based upon the opinion of the value of the land separate from the improvements of qualified land appraisers, local real estate men, and bankers who were deemed to be qualified to have reliable judgment as to the value of the particular property about which their opinions were sought. This proceeded on the theory, of course, that there was no appreciable difference in the values of land remaining in service as between December 31, 1938, and December 31, 1941, and hence that the values fixed for this class of the company's property in the earlier appraisal were still valid.

The property included under the classifications of station apparatus, station installations, and drop and block wires was completely reinventoried as of December 31, 1941, and reappraised in the same manner as was done for the prior inventory and appraisal. With respect to the property in these classifications the inventory and appraisal of 1938 were ignored. The reason for this was that there had been a large turnover of property in these classes during the period. It was deemed doubtful whether a reappraisal by extension of the old figures would be reliable either as to quantities or prices.

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Hence the engineers of the Commission and the company, in collaboration, inventoried and appraised this property anew as of December 31, 1941, in the manner heretofore described with respect to the inventory of 1938.

The balance of the property which will be referred to as the surviving inventory for purposes of clarity and brevity, constituted between 85 and 90 per cent of the whole. This property was of a more permanent character so that after the adjustments for retirements had been made as above described, the staff could rely upon the hypothesis that in kind and quantity, the property represented by this surviving inventory as of December 31, 1941, was for all practical purposes the same as it was shown to be in the 1938 inventory.

Proceeding on that hypothesis, the Commission's engineers made extensive and detailed studies of the costs of material and labor prevailing on December 31, 1941, specifically related to the material and labor represented in this surviving inventory. These studies were based in large part upon the experience of the company in the purchase of material and the employment of labor of like kind and character on or about December 31, 1941.

The Commission's engineers assumed for this purpose that the intervening trends in costs which had occurred in the major portion of this property would reliably reflect the intervening trends in costs of the balance. Hence, the inventories were reviewed to determine the larger or dominant items or subjects. For example, it was ascertained in the case

of buildings that about 25 per cent of the items or subjects listed in the inventories represented approximately 75 per cent of the total cost of the property under consideration. These items or subjects were then used as the basis for developing index numbers or multipliers by which to measure intervening cost trends.

Price quotations were then obtained from general market sources for materials and articles included in these dominant groups as of December 31, 1941. Labor rates as of that date (including payroll taxes) were investigated and ascertained for the different classes of labor in both the metropolitan and nonmetropolitan areas.

From the data so assembled, weighted multipliers or index numbers were developed which, in the judgment of the Commission's engineers, fairly measured the differences in costs, both for the labor and material, which had occurred between December 31, 1938, and December 31, 1941, with respect to the various classes of property in the surviving inventory on the latter date.

These multipliers were then applied to the cost of reproduction new of the corresponding items as shown by the Inventory and Appraisal of December 31, 1938, and the resulting figure became the Commission's engineers' estimate of the cost of reproduction new of those items. This process was followed throughout the surviving inventory to arrive finally, by cumulation, at the cost of reproduction new of all of that portion of the company's property as of December 31, 1941.

The property purchased or con-

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structed by the company between December 31, 1938, and December 31, 1941, was included in the appraisal as of December 31, 1941, at the actual original cost thereof as shown by the books of the company.

General overheads, to cover engineering and superintendence, promotional, organization, and administrative expenses, interest and taxes during construction, etc., were included at the same ratios as were used in the 1938 appraisal.

The total of all of these elements represents the Commission's engineers' original estimate of the cost of reproduction new of this property as of December 31, 1941. Summarizing, those elements and the basis on which they were respectively included were as follows:

- (a) Rights of way—at book cost.
- (b) Land—at the 1938 appraisal value or actual cost if purchased after December 31, 1938.
- (c) Station apparatus, station installations and drop and block wires—at inventory and appraisal costs as of December 31, 1941.
- (d) Property (other than that described in (a), (b), and (c), which had been included in the 1938 inventory and was still on hand on December 31, 1941 (the surviving inventory),—at trended costs computed by the use of index numbers developed with respect to this particular property.
- (e) Additions and betterments—at actual, original cost as shown by the company's books.
- (f) General overheads—included with the above amounts at ratios used in the 1938 Appraisal.

### *Cost of Reproduction New Less Depreciation As of December 31, 1941*

In addition to determining the cost of reproduction new as of December 31, 1941, the Commission's engineers extended their investigations of the actual condition of the property on that date so that the cost of reproduction new less depreciation could be estimated and stated as had been done in the Inventory and Appraisal of 1938.

In doing this they gave consideration to the condition of the property as of December 31, 1938, the amounts representing property retired or sold and the amounts representing property added during the period between December 31, 1938, and December 31, 1941. The resultant amounts are the Commission's engineers' original estimates of the cost of reproduction new less depreciation for the various operating areas as of December 31, 1941.

### *Separation and Allocation of Appraisals As of December 31, 1941*

After these elements of the problem had been worked out, it was necessary to apportion and distribute this property as between the several localities served and various services rendered as had been done in the previous inventory and appraisal.

For this purpose, new surveys were made to determine whether or not the traffic data assembled in connection with the 1938 inventory and appraisal would be adequate to cover the situation on December 31, 1941. Although these later traffic studies disclosed that the total volume of

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calls, both local and long distance, had increased, the ratios of use as between various localities and classes of service had not changed sufficiently to require or warrant the making of new separation studies to represent the condition as of December 31, 1941. In other words, the Commission's engineers satisfied themselves that the formulae previously worked out by which the separations which appeared in separation reports heretofore described were still valid and could be used in 1941 as in 1938 to determine the proper apportionment of this property as between the local exchange service, intrastate toll service and interstate toll service on the station-to-station and board-to-board bases.

Accordingly, the Commission's engineers applied these formulae and separated the appraisal for 1941, as had been done in the prior appraisal heretofore described.

*Materials and Supplies*

In addition to the above the Commission's engineers determined the amount of materials and supplies which it would be necessary to carry in stock to operate and maintain the plant included in the appraisal continuously and efficiently. This determination as of December 31, 1938, was based upon data furnished to the engineering department by the accounting department showing the actual average inventory carried by the company at cost figures as shown by the books. The allowances for materials and supplies represented the Commission's engineers' estimate of one average month's requirement of property of this kind.

The amount for materials and supplies included in the appraisal as of December 31, 1941, was calculated by determining the ratio of the amount of materials and supplies as against the total amounts of the accounts to which it applied as of December 31, 1938. This ratio or percentage was then applied to the total amounts for the same accounts as of December 31, 1941, to arrive at the allowance for materials and supplies.

All of these facts and figures were brought together in summarized form in a volume entitled "Appraisal and Separation of Property, Southwestern Bell Telephone Company, as of December 31, 1941," which was presented and received as Commission's Exhibit No. CE-4, as part of the record in this case.

*Summary of Appraisal and Separations As of December 31, 1941*

Based upon the inventories, appraisals, and separations as shown by the Commission's engineers' exhibits as heretofore described, the evidence produced by the engineering department of the Commission as to the original estimates made by the Commission's engineers as of December 31, 1941, are summarized in the tables which follow.

[Tables i to viii are omitted here. Final figures are shown in the revised tables under the heading "Summary of Revised and Final Appraisals and Separations As of December 31, 1941," at p. 275.]

*Revision of Appraisals and Separations As of December 31, 1941*

After the Commission's engine-

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ers' appraisals, separations, and allocations had been completed as of December 31, 1941, it appeared that there was a difference between the appraisals made by the Commission's engineers and those made by the company's engineers of approximately \$7,200,000. Upon instructions of the Commission, the Commission's engineers made a minute analysis of the details making up that difference and in order to limit the issues involved in this case and avoid the difficulties, delays, and expense of a prolonged hearing in this matter, the Commission's engineers and the company's engineers conferred together in an effort to adjust and reconcile the differences between the two appraisals.

The Commission's engineers thereupon reconsidered and reviewed their estimates and computations in the light of the facts and figures produced

by the company's engineers and concluded that the labor performances used by the Commission's engineers for the installation of central office equipment were not as large as circumstances warranted and that the rates used for labor costs were not sufficient to cover due allowances for wages customarily paid to cover absences from work due to sick-leaves, vacation, etc., and for employees' welfare and old-age pensions, which represent wages in the form of benefits paid for by the company and received by the employees. It was determined that these allowances could be taken into account without recasting the computations contained in Exhibit No. CE-4 by increasing the balances as shown in Exhibit No. CE-4 in the accounts listed in the following table by the percentages stated:

Account 221 .....	Central Office Equipment .....	2.5%
Account 232 .....	Station Installations .....	3.0%
Account 233 .....	Drop and Block Wires .....	3.0%
Account 234 .....	Private Branch Exchanges .....	0.5%
Account 241 .....	Pole Lines .....	2.0%
Account 242.1 .....	Aerial Cable .....	2.0%
Account 242.2 .....	Underground Cable .....	0.5%
Account 242.3 .....	Buried Cable .....	1.0%
Account 243 .....	Aerial Wire .....	1.0%
Account 244 .....	Underground Conduit .....	2.5%

(table ix)

The process of recomputation to give effect to these adjustments was exemplified as to the property as a whole in Commission's Exhibit No. CE-5, being the engineering department's summary of property as of December 31, 1941, showing the cost of reproduction new, including general overheads, and the cost of reproduction less depreciation on the board-to-board and station-to-station bases, after the balances as shown in Exhibit No. CE-4 in the accounts

listed in *table ix* had been increased by the percentages therein stated.

It is in order to state at this point that upon the determination by the Commission's engineers that these increases were allowable and would be recommended, the company abandoned its claim that the Commission's engineers' appraisal was too low in the other respects which accounted for the difference between the two appraisals.

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*Summary of Revised and Final  
Appraisal and Separations As  
of December 31, 1941*

The revision by the Commission's engineers of their estimates of the items entering into their original appraisal and separations as of December 31, 1941, necessitates a restatement of the summaries of the original estimates which appear above in *tables i, ii, and iii*. For the purpose of illustration and clarification the differences between the original and the revised estimates with respect to the property as a whole (*table i*) will be shown here. In the other instances, similar comparisons would

be awkward to present and would serve no sufficiently useful purpose.

*(1) Revised Cost of Reproduction  
New**(a) Property as a Whole*

The original estimates, as shown in *table i*, the revised estimates and the differences between them with respect (1) to the entire property covered by the appraisal (including materials and supplies) as of December 31, 1941, (2) the irrelevant property and (3) the utility property in Missouri service, were as follows:

	Original	Revised	Increase
Total Property Appraised .....	\$131,641,958	\$133,537,636	\$1,895,678
Property Not Used in Public Service .....	5,767,962	5,800,377	32,415
Total Property Used in Public Service .....	\$125,873,996	\$127,737,259	\$1,863,263
Property Assigned to Other States .....	3,654,466	3,655,733	1,267
Property Used in Public Service in Missouri ..	\$122,219,530	\$124,081,526	\$1,861,996

(For corresponding Original Cost, see table xvi, p. 278.)  
(*table x*)

*(b) Allocation of Missouri Property  
(As Revised) by Services*

The apportionment of the revised estimates as to the property used in public service in Missouri between the respective services is shown in the following table:

	Basis of Separation	
	Bd. to Bd.	Sta. to Sta.
Local Exchange ..	\$103,355,748	\$101,002,762
Intrastate Toll ...	13,088,965	14,123,867
Interstate Toll ...	7,636,813	8,954,897
Totals .....	\$124,081,526	\$124,081,526

(For corresponding Original Cost, see table xvii, p. 279.)

(*table xi*)

*(c) Allocation of Exchange Property  
(As Revised) by Localities*

As and to the extent heretofore

stated (see *table iii*) the revised estimates of the local exchange property were apportioned among the localities as follows:

	Basis of Separation	
	Bd. to Bd.	Sta. to Sta.
Joplin Exchange Area .....	\$1,166,620	\$1,086,837
Kansas City District Exchange Area .....	36,289,684	35,729,135
St. Louis District Exchange Area ..	53,110,469	52,058,763
Other Exchange Area .....	12,788,975	12,128,027
Totals .....	\$103,355,748	\$101,002,762

(For corresponding Original Cost, see table xviii, p. 279.)

(*table xii*)

*(2) Revised Cost of Reproduction  
Less Depreciation*

Of course, the revised figures re-

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flecting the increases in the balances as shown by Commission's Exhibit No. CE-4 in the accounts listed and by the percentages stated in table ix, were subject to further recomputation to give effect to the Commission's engineers' estimates of depreciation. The following tables correspond to tables v, vi, and vii after giving effect to the revised figures.

## (a) Summary of Depreciation Computations As to Missouri Property As a Whole after Revision of Estimates

Table v was designed to show the transition from the new to the depreciated basis of the estimates as to the relevant property, i. e., property used in public service in Missouri. Using the revised figures, that computation is as follows:

	Amount	Per cent
Revised Cost of Reproduction New of Property Used in Public Service in Missouri ..	\$124,081,526	100.000
Accrued Depreciation ..	14,767,949	11.902
Revised Cost of Reproduction Less Depreciation of Property Used in Public Service in Missouri .....	109,313,577	88.098

(table xiii)

## (b) Allocation of Depreciated Missouri Property (As Revised) by Services

Table vi was designed to show the distribution of the property used in the public service in Missouri as depreciated among the respective services in accordance with the separations and allocations made by the Commission's engineers. Using the revised figures, that distribution was as follows:

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	Basis of Separation	
	Bd. to Bd.	Sta. to Sta.
Local Exchange ..	\$91,057,987	\$88,979,489
Intrastate Toll ...	11,532,377	12,439,606
Interstate Toll ...	6,724,213	7,893,693
Totals .....	\$109,313,577	\$109,312,788

(table xiv)

## (c) Allocation of Depreciated Exchange Property (As Revised) by Localities

Table vii was designed to show how the exchange property in Missouri, after depreciation, was distributed among the localities served by the company. Using the revised figures, that distribution was as follows:

	Basis of Separation	
	Bd. to Bd.	Sta. to Sta.
Joplin Exchange Area .....	\$1,014,959	\$945,548
Kansas City District Exchange Area ...	31,622,830	31,136,804
St. Louis District Exchange Area ...	47,316,117	46,373,410
Other Exchange Areas	11,104,081	10,523,727
Totals .....	\$91,057,987	\$88,979,489

(table xv)

## The Determination of Original Cost

As heretofore related, the Commission's accountants in accordance with the Order of November 25, 1936, to make an audit of the books, records and accounts of Southwestern Bell Telephone Company comparable with the appraisal therein ordered, did make such an audit and cooperated with the Commission's engineers in assembling facts and figures which were deemed helpful to the Commission in the determination of the fair value of the properties of the company. The results of the work of the Commission's accountants were embodied in Commission's Exhibit CA-1 and CA-2, entitled respectively, "Audit of Accounts, Southwestern Bell Telephone Company, St. Louis,

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Missouri, at December 31, 1938," and "Audit of Accounts, Southwestern Bell Telephone Company at December 31, 1941."

Commission's Exhibit CA-1 is, as its title indicates, the report of the Commission's accountants of their audit of the books of the Southwestern Bell Telephone Company for the period ended December 31, 1938, made in pursuance of the order of November 25, 1936.

This exhibit contains a variety of valuable information with respect to the company. For the purposes of this proceeding, however, that portion of the report dealing with the Commission's accountants' ascertainment and estimates of the original cost of the company's properties embraced within the inventory and appraisal made by the Commission's engineers, is important and will be discussed here.

The scope of the audit on this aspect of the matter involved a careful examination of the company's telephone plant investment accounts, including Telephone Plant in Service, Telephone Plant Under Construction, Property Held for Future Telephone Use, and Telephone Plant Acquisition Adjustment Accounts. At the time of the original audit, these accounts had been reclassified to meet the requirements of the uniform system of accounts prescribed by this Commission for Missouri telephone companies effective January 1, 1937.

The first three accounts named were designed and intended to show the actual money cost of the property reflected by the account at the time it was first dedicated to public service either by the Southwestern Bell Tele-

phone Company or by one of its predecessors where telephone plant in service had been acquired by the company from a preëxisting utility by purchase in bulk.

The Telephone Plant Acquisition Adjustment Account, provided by the Uniform System of Accounts, was designed and intended to reflect any differences between the telephone plant investment accounts as they were before the reclassification as of January 1, 1937, and as they were after that reclassification.

Where the Commission's accountants were satisfied that the company's accounting records and other supporting data showed the actual money cost of the property at the time of its dedication to the public service that amount was accepted and taken by them to be the original cost of the property for this purpose. Where, however, the records were not complete, as for example, where the records of former owners were not available, it was necessary for the Commission's accountants to estimate the original cost of the property at the time of its dedication upon such bases as the facts and circumstances warranted. It may be said in this connection that the Commission's accountants were able to verify the original cost of a large percentage of the constituent acquisitions and of all of the additions and betterments made by the Southwestern Bell Telephone Company, so that the estimated portion of the amount reported as original cost is relatively very small.

The accounts were carefully examined by the Commission's accountants for errors, omissions and discrepancies and appropriate adjust-

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ments were made to the end that the original cost of the property appraised in the inventory and appraisal, on an actual or estimated basis, could be stated. As heretofore stated, the Commission's engineering and accounting departments collaborated with respect to the classification of the property, the elimination of nonutility property and property assigned to other states, and the determination of the property used in public service in Missouri, including that part of the Kansas property operated in conjunction with the Missouri property as heretofore described. They also co-ordinated their efforts in determining and applying the bases used for separating and allocating the property used in public service in Missouri as between the three classes of services and as between the localities served, to the end that the inventory and appraisal made by the Commission's engineers and the audit made by the Commission's accountants, both as of December 31, 1938, would be corresponding and complementary documents, at least in so far as Engineers' Estimates of Cost of Reproduction New and Cost of Reproduction Less Depreciation and the Accountants' Estimates of Original Cost are concerned.

At the time it was determined to recompute and extend the original appraisal so as to show the condition of the company in the particulars covered thereby, as of December 31, 1941, it was deemed proper and necessary to extend the audit in the same way. Accordingly, the Commission's accountants audited the books of the

Southwestern Bell Telephone Company for the period ending on December 31, 1941, for the purpose of securing information regarding the company subsequent to 1938. Commission's Exhibit CA-2 is the Commission's accountants' report of that audit.

### *Summary of Estimates of Original Costs as of December 31, 1941*

#### *(a) Property as a Whole*

In their audit as of December 31, 1941, the Commission's accountants found that the original cost of all of the company's property covered by the audit (not including materials and supplies) as recorded in the books of the company was \$131,924,846. This figure, however, was subject to certain adjustments, as more fully described on page 26 of Commission's Exhibit CA-2, the net amount of which reduced the recorded original cost by \$84,302, so that, as found by the Commission's accountants, the original cost of all of the property included in the audit was \$131,840,544, exclusive of materials and supplies.

The components of this figure are summarized in the following tables:

Total Property Included .....	\$131,840,544
Property Not Used in Public Service .....	5,384,292
<hr/>	
Total Property Used in Public Service .....	\$126,456,252
Property Assigned to Other States .....	3,423,612
<hr/>	
Property Used in Public Service in Missouri .....	\$123,032,640

(For corresponding Cost of Reproduction  
New (Revised), see table x, p. 275.)  
(table xvi)

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## (b) Allocation of Missouri Property by Services

The estimates of original costs of the property used in public service in Missouri were separated and allocated as between the respective services as follows:

	Basis of Separation	
	Bd. to Bd.	Sta. to Sta.
Local Exchange ..	\$102,299,430	\$99,951,757
Intrastate Toll ...	13,356,027	14,401,006
Interstate Toll ...	7,377,183	8,679,877
Totals .....	\$123,032,640	\$123,032,640

(For corresponding Cost of Reproduction New (Revised), see table xi, p. 275.)  
(table xvii)

## (c) Allocation of Exchange Property by Localities

As was done by the Commission's engineers in preparing their appraisals and estimates, the Commission's accountants ascertained and estimated original costs on the basis of the local exchanges individually, including as to each that property which was associated solely with the service locally rendered at that point and adding an allowance representing a portion of the other property of the company which entered into the service at that point in the manner heretofore described with reference to the separations and allocations as to localities made by the Commission's engineers (see *ante*, p. 266).

In this as in other like instances herein, it is not deemed necessary to state the estimates of original costs as to each local exchange. These are stated in Commission's Exhibit CA-2 in itemized detail as to each of the localities in the state served locally by the company.

For this purpose we will state the

Commission's accountants' estimates of original costs with respect to those local exchanges which are directly involved by virtue of the consolidation orders made herein, as was done in *Tables iii and vii* [omitted herein], *xii* on p. 275, and *xv*, on p. 276.

		Basis of Separation	
		Bd. to Bd.	Sta. to Sta.
Joplin	Exchange Area .....	\$1,172,857*	\$1,094,757
Kansas	City District Exchange Area .....	35,544,308*	34,989,810
St. Louis	District Exchange Area ..	52,882,613*	51,825,463
Other	Exchange Areas .....	12,699,652*	12,041,727
Totals .....		\$102,299,430*	\$99,951,757

(For corresponding Cost of Reproduction New (Revised), see table xii, p. 275.)  
(table xviii)

(\* For the benefit of those who in the future may have occasion to refer to these figures and those in the exhibit from which they are derived, we might say that a comparison of the figures in *table xviii* with those in Statement No. 19 "Estimated Original Cost of Intrastate Exchange Telephone Plant in Service" statewide and by localities shows that the amount of the board-to-board figures in *Table xviii* are not the same as those contained on those pages of the exhibit. The differences are accounted for by the fact that the board-to-board figures in *table xviii* include that portion of exchange property which was used in connection with interstate service, whereas the statements in the exhibit referred to do not. The reconciliation of these figures will be found in Statement No. 17, "Summary by Exchanges of Estimated Original Cost of Telephone Plant in Service.")

Here, as in the case of the comparable tables covering the estimates of the Commission's engineers, the item "Other Exchange Areas" in *table xviii* represents the total estimated original costs as ascertained and allocated to the respective local exchanges listed in *table iv*. If and when occasion arises so to do, the corresponding figures as to each locality can be specifically ascertained from Commission's Exhibits CA-1 and CA-2.

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### *Cash Working Capital*

The Commission's accountants also made an investigation of the experience of the company with respect to the amount of cash which the company would be required to have on hand to defray currently those costs of its operations which in the ordinary course of business are defrayed prior to the collection of revenue from related operations.

In the original audit as of December 31, 1938, these studies were based upon the month of November, 1938, as being representative of a normal operating period for estimating an allowance for cash working capital. In the audit as of December 31, 1941, because there had been no substantial change in the company's methods and practices in this connection, the Commission's accountants estimated the cash working capital requirements by increasing the allowances computed in the previous audit at the ratio between the adjusted operating expenses for 1938 and 1941.

By this process the Commission's accountants have estimated the cash working capital requirements as of December 31, 1941, arising out of Missouri operations of the company at \$768,839.

This was separated and allocated as between the respective services as follows:

	Basis of Separation Bd. to Bd.	Sta. to Sta.
Intrastate Exchange ...	\$639,673	\$632,513
Intrastate Toll .....	78,730	82,045
Interstate Toll .....	50,436	54,281
Totals .....	\$768,839	\$768,839

(table *xix*)

The intrastate exchange figures in

table *xix* were distributed by localities as follows:

	Basis of Separation Bd. to Bd.	Sta. to Sta.
Joplin Exchange Area	\$8,682	\$8,228
Kansas City District Exchange Area .....	202,807	201,100
St. Louis District Exchange Area .....	345,020	342,021
Other Exchange Areas .....	83,164	81,164

Totals ..... \$639,673      \$632,513  
(table *xx*)

As in the other similar instances, the item "Other Exchange Areas" covers this aspect of the matter as to those local exchange areas listed in table *iv*. Specific figures related to each locality there named may be ascertained from Commission's Exhibit CA-2.

### *The Stipulations*

As heretofore related, the engineers for the Commission and the company differed in their estimates of reproduction cost new as of December 31, 1941, by about \$7,200,000. These differences were composed by direct negotiation and the Commission's engineers' estimates were revised. These revisions have been summarized in tables *x* through *xv*,

In the pre-trial stage in this proceeding, counsel for the Commission and the company entered into a stipulation covering certain of the ultimate facts and figures involved herein as agreed to by the staffs of the Commission and the company. At the same time counsel for the Commission, the company and the city of Kansas City entered into a separate stipulation of a similar nature. These stipulations were received in evidence as Commission's Exhibits A and B.

Commission's Exhibit No. A re-

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lates to the property of the Southwestern Bell Telephone Company located in the state of Missouri or used in connection with its business in Missouri as a whole. Commission's Exhibit No. B relates to the properties of the Southwestern Bell Telephone Company located in and allocated to the Kansas City District Exchange Area and related to the business of the company in Kansas City, Missouri. Inasmuch as these documents speak for themselves with reference to the circumstances leading up to their execution, the matters and things agreed upon and their force and effect, it is felt that it will not unduly encumber this record if they are reproduced here, omitting captions and signatures.

## Commission's Exhibit A

### (Statewide)

#### "STIPULATION"

"It is hereby stipulated and agreed by and between counsel for Southwestern Bell Telephone Company and counsel for the Public Service Commission of Missouri as follows: [Preliminary recitals omitted.]

"As aforesaid, it is agreed that:

"1. (a) The original cost (Account 100.1—Telephone Plant in Service) as of December 31, 1941, of the company's telephone plant in intrastate telephone service in Missouri (including certain property, then located in Kansas and used exclusively in the company's Missouri intrastate business, or then used in conjunction with Missouri property in providing exchange telephone service in exchanges extending beyond state lines) was \$115,655,458, exclusive of materials and supplies, and including the cost of materials and supplies related to the company's intrastate operations, as reckoned by the Commission's engineers, was \$116,365,794.

"(b) The reproduction cost new of said property (denominated by the Commission's engineers in their report and exhibit as Intrastate Property—Board-to-Board), as of said date, was \$116,444,713, including materials and supplies.

"(c) The reproduction cost new, less depreciation, of said property, as of said date, was \$102,589,364, including materials and supplies.

"2. The respective amounts of the foregoing costs of said property, as of said date, represented by the relative use of exchange property in the transmission and reception of interstate messages, were:

(a) Original cost .....	\$1,274,784
(b) Reproduction cost .....	1,318,084
(c) Reproduction cost, less depreciation .....	1,170,269

"The subtraction of amount (a) above stated designated as 'Original Cost: \$1,274,784' plus \$27,911, or \$1,302,695, and of amounts (b) and (c) from the corresponding figures in Paragraph 1 (a), 1 (b) and 1 (c) will produce the result in each case, denominated by the Commission's staff in their reports and exhibits as 'Intrastate Property—Station-to-Station.'

"3. The foregoing agreed costs contains no separate or specific allowance for the company's necessary cash working capital, or for going concern value, or cost of establishing the business.

"4. The foregoing agreed costs exclude the following property in the following respective amounts:

"(a) Property located in Missouri assignable to operations of the company's property in other states—

Original cost .....	\$3,423,612
Reproduction cost .....	3,655,733
Reproduction cost, less depreciation .....	3,290,159

"(b) Property located in Missouri rented to affiliated companies and others—

Original cost .....	\$4,315,054
Reproduction cost .....	4,298,559
Reproduction cost, less depreciation .....	3,868,703

"(c) Property located in Missouri not used in public service as determined by Commission engineers—

Original cost .....	\$1,069,238
Reproduction cost .....	1,501,818
Reproduction cost, less depreciation .....	1,323,101

"5. The original cost of all the company's property recorded in Account 100.1 (Telephone Plant in Service) as of December 31, 1941, located in Missouri, and the property located in Kansas a part of which is used exclusively for Missouri business, or used in conjunction with Missouri property in providing exchange telephone service in exchanges extending beyond state lines, was \$131,824,846. [Corrected to \$131,924,846.]

"The reproduction cost new of said property, as of said date, was \$133,537,636; and the reproduction cost new, less depreciation, of the same, as of said date, was \$117,794,751.

"6. A fair allowance for cash working capital needed by the company for its intrastate operations, as of December 31, 1941, was \$718,403 on a board-to-board basis, and \$714,558 on a station-to-station basis, as these terms are used in the reports and exhibits of the Commission's staff.

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"7. By engaging in this stipulation, and by so accepting and agreeing to the ultimate facts, figures, and amounts respecting the subjects aforesaid, as developed by the Commission's staff, the company is not to be understood as agreeing or concurring in any subordinate facts, figures, amounts, or conclusions—which may have entered into the processes of the Commission's staff in arriving at the ultimate conclusions agreed to; and the company, likewise, is not to be understood as agreeing or concurring in any of the opinions, principles, theories, methods, or practices employed by the Commission's staff in arriving at any of the conclusions herein agreed to or providing the basis for any agreement herein.

"8. This stipulation may be introduced in evidence in any hearing in this case, and neither party will introduce in any such hearing any evidence inconsistent herewith, but each reserves the right to introduce such further or additional evidence, including evidence of items of value not here included but not inconsistent herewith, as either may consider advisable."

### *Commission's Exhibit B*

#### (Kansas City District Exchange)

##### *"STIPULATION"*

"It is hereby stipulated and agreed by and between counsel for Southwestern Bell Telephone Company, counsel for the city of Kansas City, Missouri, and counsel for the Public Service Commission of Missouri as follows: [Preliminary recitals omitted.]

"As aforesaid, it is agreed that:

"1. The original cost (Account 100.1—Telephone Plant in Service) as of December 31, 1941, of the company's telephone plant in intrastate exchange telephone service in and allocated to the Kansas City District Exchange Area as defined by the tariffs of the company on file with the Public Service Commission of Missouri was \$35,544,308, exclusive of materials and supplies, and including the cost of materials and supplies related to the company's intrastate exchange operations in said area as reckoned by the Commission's engineers, was \$35,754,916.

"The reproduction cost new of said property (denominated by the Commission's engineers in their reports and exhibits as 'Intrastate Exchange Property—Board-to-Board'), as of said date, was \$36,298,684, including materials and supplies.

"The reproduction cost new, less depreciation, of said property, as of said date, was \$31,622,930, including materials and supplies.

"2. The respective amounts of the foregoing costs of said property, as of said date, represented by the relative use of exchange property in the transmission and reception of interstate and intrastate toll messages, were:

Original cost .....	\$554,449
Reproduction cost .....	560,549
Reproduction cost, less depreciation .....	486,026

"(The subtraction of these amounts from the corresponding figures in paragraph 1 will produce the result denominated by the Commission's staff in their reports and exhibits as 'Intrastate Exchange Property—Station-to-Station' in the above described area).

"3. The foregoing agreed costs contain no separate or specific allowance for the company's necessary cash working capital, or for going concern value, or cost of establishing the business.

"4. The foregoing agreed costs exclude the following property: (a) Property located in Missouri assignable to operations of the company's property in other states; (b) Property located in Missouri rented to affiliated companies and others; (c) Property located in Missouri not used in public service as determined by Commission engineers.

"5. A fair allowance for cash working capital needed by the company for its intrastate exchange operations, in the Kansas City District Exchange Area was \$202,807 on the 'board-to-board basis' and \$201,100 on the 'station-to-station basis,' as those terms are used in the reports and exhibits of the Commission's staff."

(The remainder of Exhibit B, being paragraphs 6 and 7, is identical with paragraphs 8 and 9 in Exhibit A and will be omitted here).

### *Other Evidence*

The foregoing has been designed to summarize and state the evidence in chief of the Commission's staff on the primary question of value produced and presented by the staff in response to the Commission's order of November 25, 1936.

In addition to that embraced within the statement already made, the Commission's engineers also presented a computation based upon an analysis of the company's depreciation reserves made by the Commission's accountants for the period from 1917 through 1941 and the return filed by the company under the order on Depreciation Charges for Telephone Companies in I. C. C. Docket No. 14,700. From this study the

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Commission's engineers prepared their recommendations for an annual depreciation allowance for the Missouri property of the Southwestern Bell Telephone Company which was presented here as Commission's Exhibit No. CE-6.

On the completion of the staff's case in chief, the company and the city of St. Louis each introduced substantial evidence. Although other parties who were present did not introduce evidence, they participated to a greater or less extent in the cross-examination of the various witnesses and have filed briefs. It will simplify and shorten this statement if we take notice of the evidence and the briefs jointly at this point in order to segregate and separately state the contentions of the various parties.

*The Evidence on Behalf of the Company*

The company introduced evidence on four general subjects which will be stated and briefly summarized.

(1) *On Present Fair Value.* The company's evidence on this matter was supplied by Witness E. T. Mahood who has been in the employ of the company and its predecessors for thirty-nine years, mostly in an engineering capacity. The purport of his testimony was that considering together the proven efficiency of the plant to render the service for which it was designed and built, its original cost, what it would cost to reproduce it new, the trends in cost since December 31, 1941, the amount by which the property had depreciated, the necessary working capital and the fact that the plant was in operation with records, contracts, routines, and per-

sonnel, with subscribers attached receiving service and producing revenue, the value of the company's property used and useful on December 31, 1941, in furnishing intrastate telephone service in Missouri, including that part of the Kansas City District Exchange located in Kansas, was at least \$125,000,000.

(2) *Cost of Establishing Business.* The company's testimony on this subject was that of Witness L. H. Schultz, an inventory and cost engineer who has been in the employ of the company in various capacities for over thirty years. The substance of his testimony was that the costs of establishing business are costs which are necessary to convert a dormant plant into a live going concern and that they are on a par with the costs of material, labor, freight, etc., as factors entering into the value of the property. With respect to the properties included in the appraisal, these costs associated with establishing business, according to Mr. Schultz, aggregated \$5,212,445, and consisted of the cost of (a) securing contracts for telephone service, \$1,896,892 (b) training and assembling employees, \$761,871, (c) establishing records, \$244,320, and (d) establishing adequate depreciation reserve, \$2,309,362. Of the aggregate amount stated, the witness allocated \$4,927,333 to the intra-Missouri portion of the property.

(3) *On Statewide Basis of Telephone Rate Making.* The company's testimony on this subject was presented by witness M. L. Percy, general commercial engineer for the Southwestern Bell Telephone Com-

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pany who has been in the employ of the company for more than twenty years. The substance of his testimony was that the total intra-Missouri operations of the company form the basic rate unit rather than the individual local exchange and that charges for service should be calculated and fixed accordingly. This method, he testified, would produce the necessary aggregate revenues and at the same time accomplish maximum satisfaction to the public by encouraging maximum practicable use of the service with a fair distribution of charges and high quality of service and that it would permit economic operation and make for simplicity of administration and ease of understanding by the public. He testified that under this system the various local exchanges in the company's system in Missouri would be grouped according to the number of individual telephone stations served and that charges to consumers for service would be fixed on a graduated scale according to groups, ranging, for illustration, from a flat monthly rate for a single party business phone of \$3 and for a similar residence phone of \$2 at exchanges serving less than four hundred stations to \$14 and \$4.50 respectively in exchanges serving more than 250,000 stations.

(4) *As to Western Electric Prices.* This testimony was presented in the form of the depositions of several witnesses with supporting exhibits. It was presented defensively to meet the contention made by the city of St. Louis that the use of Western Electric prices had a tendency to inflate the appraisal. This evidence will be discussed later in more detail.

### *The Evidence and Contentions of the City of St. Louis*

The evidence in chief presented by the city of St. Louis was addressed mainly to two major propositions which will be stated and summarized as follows:

(1) *Exchange v. Statewide Theory of Rate Making.* The testimony of the city of St. Louis on this subject was presented by the late Max H. Doyne, who at the time of the hearing was director of public utilities of the city of St. Louis, and was supported by certain exhibits. On this subject, the general tenor of the city's testimony was that the exchange rates of the Southwestern Bell Telephone Company in Missouri have always been determined on an exchange and not on a statewide basis, that the adoption of the statewide theory of rate making would increase and perpetuate the burden already carried by the rate payers of the city of St. Louis and that the statewide theory of rate making if applied in this particular case would be unfair.

(2) *Western Electric Prices.* The testimony of the city of St. Louis on this subject was also presented by Mr. Doyne with supporting exhibits. Its substance was that because upwards of 60 per cent of the total property included in the inventory and appraisal (at least as of December 31, 1938) consisted of material and equipment manufactured by or purchased through the Western Electric Company and because the estimates of the Commission's staff of the reproduction cost new and depreciated, and the original cost of this large segment of the company's property were based on

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Western Electric prices and because the Western Electric Company was affiliated with the Southwestern Bell Telephone Company through common stock ownership by the American Telephone and Telegraph Company, the use of Western Electric prices by the Commission's engineers and accountants resulted in excessive reproduction and original cost appraisals.

(3) *Other Objections and Criticisms of the Appraisal.* Furthermore, through Mr. Doyme and in its briefs, the city of St. Louis stated that it favors the station-to-station over the board-to-board basis of rate making, submitted figures purporting to show an excessive return in the St. Louis District Exchange Area in 1941 and, by cross-examination and analysis of the evidence of the Commission's engineers, the city leveled various criticisms at the appraisal, in particular that the appraisal was on a piecemeal instead of a wholesale basis, that the appraisal as of December 31, 1941, was calculated by trending the 1938 appraisal rather than re-inventorying the property, that the method of computing the general overheads was erroneous and that the Commission's engineers were in error in computing certain of the labor rates used to determine the reproduction cost new.

The city of St. Louis, in its briefs filed herein, has referred back to the objective of its original complaint (Case No. 9280) wherein it sought to have the city of St. Louis treated separate and apart for purposes of appraisals and annual reports from the rest of the company's system.

*The Contentions of the City of Kansas City*

The city of Kansas City did not offer any evidence as such on its behalf. It did participate vigorously in the cross-examination of the witnesses and has marshalled and analyzed facts and figures in support of its contentions from the record as a whole. Its principal contentions are these:

(1) *Prudent Investment.* The city of Kansas City urges upon the Commission the adoption of the so-called prudent investment method for determining the rate base for this company and specifically contends that the value of the company's property in the Missouri portion of the Kansas City District Exchange Area as of December 31, 1941, should be fixed by the Commission at its original cost, including materials and supplies and working capital, upon a station-to-station basis, at \$29,966,507, less \$9,388,408, representing a portion of the company's book reserve for depreciation arrived at by a process of allocation, so that the rate base for the Missouri portion of the company's property in and ascribed to the Kansas City District Exchange Area would be \$20,558,099 as of December 31, 1941.

(2) *Local Exchange v. Statewide Basis of Valuation.* The city of Kansas City (in its brief filed later) contended that the Commission should continue to treat the telephone plant of the company on a local exchange basis for rate-making purposes and that it would be unjust, unfair, and unreasonable and discriminatory and under the statute unlawful to value the properties of the respondent

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company upon a statewide basis, and to fix rates accordingly.

(3) *Station-to-station Valuation.* The city of Kansas City urges the Commission to adopt the station-to-station basis of allocation and separation, instead of the board-to-board basis.

### *The Contentions of the City of St. Joseph*

In its brief filed herein, the city of St. Joseph advocates the statewide method of regulation, opposes the company's proposition that the cost of establishing business should be figured in the rate base and urges the Commission to scrutinize Western Electric prices carefully and otherwise to exercise a high degree of care and good judgment in arriving at its decision to the end that ultimately the residents of St. Joseph and the St. Joseph Exchange Area will enjoy the lowest possible telephone rates commensurate with good service.

### *The Contentions of the City of Trenton*

By briefs filed herein, the city of Trenton criticizes the use of Western Electric Company prices and the rate of interest (6 per cent) used by the Commission's engineers in computing the interest during construction as part of the general overheads, advocates the prudent investment method of valuation adopted by the Federal Communications Commission and urges that hereafter telephone rates be established on a statewide basis.

### *The Contentions of the City of Marceline*

By its mayor, the city of Marceline,

wherein the company has approximately 600 subscribers, asserts that the system at that point is old, antiquated and behind the times, has never been substantially improved beyond necessary repairs in the thirty-seven years of its existence and that the rates have long been too high considering the type and condition of the company's equipment, the service furnished and the income received.

### *Contentions of the Economic Stabilization Director and the Price Administrator*

Speaking on behalf of the stabilization program enacted by the Congress to aid in the successful prosecution of the War, the Stabilization Director and Price Administrator urge that wartime principles and problems require the rejection of reproduction cost and the determination of the rate base on the basis of original cost; that the Commission should deduct the depreciation reserve as the proper measure of accrued depreciation and that the company has failed to establish that it is entitled to a separate allowance for going value. These agencies bring to our attention the executive order of the President of the United States to the effect that rate increases should be disapproved and rate reductions affected consistently with the Act of October 2, 1942, in order to keep down the cost of living and effectuate the purpose of the wartime stabilization program.

### *The Evidence in Rebuttal of the Commission's Staff*

In addition to its evidence in chief, the Commission's staff presented by

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way of rebuttal certain evidence, both oral and documentary, purporting to answer certain questions raised in the course of the hearing about its inventory, appraisal and audit and to explain various aspects thereof.

### OPINION

#### I

#### *Analysis of the Issues*

At the end of all of the evidence, it is appropriate for the Commission to search the record and take an inventory of the contentions and counter-contentions of the various parties in order to determine what issues are before the Commission for decision and action. The stipulations served not only to reduce and simplify the record, but to relieve this case of the confusion and burden of contention and controversy as to details and items which commonly arise in matters of this kind. However, because the public interest is involved and because the stipulations on their face do not purport to be complete either as to subject matter or as to parties, they leave many problems for decision in the general field of telephone regulation in Missouri. Some of these questions arise on this record. Others may be anticipated to arise on other records in the future.

As it appears to us, at the close of all of the evidence and upon the briefs filed, the controverted issues arising on this record as a whole may be stated in the form of direct questions thus:

(1) Should the estimates of the Commission's staff with respect to cost of reproduction new, cost of reproduction new less depreciation, and

original cost be rejected or revised—

(a) because the price lists of the Western Electric Company, a sister corporation in the Bell family, were used as the basis for unit costs of a major portion of the material and equipment included in the estimates?

(b) because the appraisals were on the piecemeal and not on a wholesale basis?

(c) because of the methods used by the Commission's staff in computing general overheads?

(d) because the labor rates (or certain of them) used by the Commission's engineers were excessive?

(e) because the final appraisal as of December 31, 1941, was in large part trended from the detailed physical inventory and appraisal as of December 31, 1938, and was not based directly upon a new physical inventory, a complete inspection of the property, a detailed item-to-item re-pricing, etc.?

(2) Should the costs of establishing business, including therein the cost of securing contracts for telephone service, training and assembling employees, establishing records, and establishing adequate depreciation reserves as proposed by the company be recognized as an element and included in the valuation of the property?

(3) Should the valuation of the company's property employed in rendering service in Missouri be determined on the board-to-board or station-to-station basis?

(4) Should the valuation of the company's properties used and useful in intra-Missouri service be determined by treating the whole body of such property in its entirety as a

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single rate-base unit, or by treating each local exchange area and the portion of the property employed in intrastate toll service as separate and distinct rate-base units or, as stated otherwise, should the Southwestern Bell Telephone Company's rates in Missouri be on a statewide or local exchange basis?

(5) In the valuation of the company's property involved herein, should the Commission follow the so-called prudent investment theory and determine the rate base to be the net difference between original cost (i. e., the actual money cost of the property to the dedicator at the time it was first dedicated to the public service) and the corresponding balance in the company's reserve for depreciation?

(6) Should the city of St. Louis be treated separate and apart from the St. Louis District Exchange Area and the rest of the system for purposes of valuation and annual reports as proposed by the complaint in the St. Louis Case, No. 9280?

(7) Was there an excessive rate of return at St. Louis in 1941?

(8) Should the Missouri portion of the Kansas City District Exchange area be treated separate and apart from the balance of the Kansas City District Exchange Area and the rest of the company's system generally?

(9) Are the rates for telephone service in Kansas City exorbitant, unreasonable, and unjust as alleged in the complaint in the Grover Case, No. 8112?

(10) Are certain of the rates charged and practices followed by the company at Joplin discriminatory as charged in the complaint in the Joplin Case, No. 9528?

(11) Should the Commission determine what the rates for telephone service at Joplin and in its vicinity should be as prayed for by the complaint in the Joplin case?

(12) Are the rates at Marceline, Missouri, too high considering the type and condition of the company's equipment at that point, the service furnished and the income received?

This combination of contentions brings before the Commission a troublesome and serious question of policy with respect to what action it should take in this proceeding. As appears from their statement, some of these questions are general and common to the case as a whole, while others are local and have nothing in common with their companion questions, save and except the basic problem of valuation. All things considered, should the Commission here and now undertake to decide each of these questions categorically or should the Commission decide some of them at this time and defer decision of the others to some future time?

### II

#### *The Scope of the Commission's Consideration Defined*

[1] Mindful as we are of the long delay which has already marked this proceeding and of the great importance of the final settlement and disposition of the questions involved here, it is nevertheless our studied opinion and judgment that as this record was made and is presented to us, the public interest would be better served and that the ultimate objective of this and all similar proceedings of this kind would, in all probability, be

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more certainly and speedily attained if the Commission in arriving at its decision in this case, adheres strictly to the purposes of the original order of November 25, 1936, which were to obtain information which might be helpful to the Commission in its determination of the *fair value* of the property of the company for use in any proceedings involving the same which might come before the Commission.

To explain this conclusion and to forestall any misunderstanding or misconstruction of our action here, it is proper to say that at the beginning of the hearing herein, the company interposed an objection to a consideration of rates or evidence relevant to rates in this proceeding. This objection was based primarily upon the context of the orders that had been made herein, with respect to the scope and purpose of the investigation by the Commission's staff. Responsive to this objection the Commission announced that in light of the language of the orders referred to, this proceeding would be limited to an ascertainment of the value of the property of the company under § 5679, Rev Stats Mo 1939, and that the Commission would not undertake at this time to determine, on the basis of revenues and expenses under § 5670, Rev Stats Mo 1939, whether there should be any change in the rates and charges for service made by the company.

In the course of the hearings this limitation was applied consistently by the Commission and followed by counsel in marshalling and producing their evidence. Hence, on the hearing, this case was treated as a valuation

proceeding and not as a rate case, and, of course, to preserve due process our findings must be limited accordingly.

(1) *Valuation under § 5679, Rev Stats Mo 1939.* Explanatory of what we mean by a valuation proceeding in this sense, it may be said that § 5679, Rev Stats Mo 1939, was approved March 17, 1913, as § 101 of the Public Service Commission Act of 1913, under the topical title, "Power of Commission to Ascertain Valuation of Property of Telegraph Corporations and Telephone Corporations" (Laws, 1913, p. 634; see also § 60, Laws 1913, p. 597, § 5637, Rev Stats Mo 1939; § 78, Laws 1913, p. 615, § 5655, Rev Stats Mo 1939, and compare, "Physical Valuation of Property Act" of March 1, 1913, § 19a Interstate Commerce Act, US CA Title 49, § 19a and historical note).

The general power delegated to the Commission was stated in subdivision 1 of § 5679, as follows:

"1. The Commission shall have the power to ascertain the value of the property of every telegraph corporation and telephone corporation in this state and every fact which in its judgment may or does have any bearing on such value. The Commission shall have power to make revaluations from time to time and to ascertain all new construction, extensions, and additions to the property of every telegraph corporation and telephone corporation."

In subdivision 2 of the same section, the legislature provided a special procedure to be followed in ascertaining the valuation of these properties and the legal effect of such a deter-

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mination. In substance, this part of the section provided that the Commission, acting under the broad visitorial powers granted by the act, could make any preliminary examination or investigation it desired into the value of the property and the facts bearing thereon, resorting for that purpose to any source of information available to it. Before acting on that information, however, the Commission was required to fix a time and place for a hearing and to notify the utility in writing of that time and place at least thirty days in advance. To insure due process and avoid any semblance of ex parte action, the utility was given the right to be heard and to introduce evidence at the hearing. All relevant information procured by the Commission was required to be introduced in evidence at the hearing and the evidence taken at the hearing was required to be reduced to writing and certified by the Commission. The Commission was required to make and file formal findings of fact in writing upon all matters concerning which evidence bearing upon the value of the property was introduced at the hearing. Those findings were made subject to the same judicial review as was provided for other action of the Commission.

The act of 1913 then provided that the findings of fact so made and filed should be admissible in evidence in any action, proceeding or hearing before the Commission or the courts of Missouri wherein the Commission, or the state, its officers and agencies or its political subdivisions, on the one hand, and the utility on the other were interested, as evidence "of the

facts therein stated under conditions then existing."

Such findings were made subject at all times to reexamination and supplementation for the purpose of making revisions and revaluations to allow for changes of conditions and account for betterments, improvements, additions, extensions, etc., all under the conditions of notice and hearing prescribed for the original proceedings. (See *State ex rel. Columbia Teleph. Co. v. Atkinson*, 271 Mo 28, PUR1917F 27, 195 SW 741.)

The purpose of the general assembly of 1913, in delegating these particular powers to the Commission, is plain. At that time there were millions of dollars worth of property in the state which the legislature was, for the first time, subjecting to regulation in the public interest under the police power. At the root of the system of regulation then inaugurated lay the question of value, not only of property subsequently to be acquired and put in service, but of that vast body of property which was already in service. As a practical matter, it was necessary that the enormous mass of information bearing upon such values, at least as of a day certain under conditions then existing, should be reduced to the form of solemn findings, deliberately derived with a proper consideration for the requirements of due process and the rights of the utilities, which would provide, for all reasonable time to come, a firm foundation and starting point for the regulation of rates, services, finances, etc., by the comparatively simple and speedy device of bringing

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the basic findings of facts bearing on value up to date.

(2) *The Need for Basic Findings in this Case.* It is in that sense that this proceeding was limited to matters bearing only on the value of the properties of the Southwestern Bell Telephone Company in Missouri; and it will be in that sense that the findings of this Commission on this occasion will be confined to matters relating solely to value. By so doing, the Commission will provide a firm foundation on the basis of which it can in the future proceed in due course to the solution of the manifold problems of regulation which may arise out of the operation of this essential, extensive and complicated utility structure, without the confusion and delay which unavoidably attends proceedings of this kind because of the necessarily large and complicated record involved.

The situation which exists in this case illustrates the desirability (if not the necessity) for following this procedure. By and large, the record in this case is a typical utility valuation record, distinguishable from other such records perhaps only by the fact that it involves the most extensive geographically of the utilities operating in Missouri. Even though the stipulations eliminated much record-producing controversy, the transcript of the oral testimony, not including the depositions, consists of approximately 700 typewritten pages. In all, thirty-eight exhibits were introduced. These consisted largely of engineering, accounting and statistical tabulations and analyses in great volume. The principal exhibits introduced by the Commission's staff alone aggre-

gated more than 5,000 pages of such matter. The great bulk of this material related wholly to certain of the ultimate facts bearing upon the valuation of the property as of December 31, 1941, under conditions then existing.

As more fully described earlier, those ultimate facts are the staff's estimates as of that date of (1) the reproduction cost new of the company's property used and useful in rendering telephone service to the public in Missouri; (2) the reproduction cost new less depreciation of that property; (3) its original cost, (4) the necessary materials and supplies and (5) cash working capital. In each instance, these ultimate facts have been separated and allocated so as to reflect the comparative use of that property at that time by the three classes of services rendered by the company. These computations have been carried out to show all of these facts on the station-to-station and board-to-board bases and on the local exchange as well as the statewide basis.

The significant thing is that as this record stands now, there is relatively little dispute about those ultimate facts. The Commission has some reason to believe (and every reason to hope) that its findings with respect to those particular facts will not be questioned by an appeal and will become final upon the effective date of this order.

On the other hand, this case presents a number of important questions of first impression in this state. Those questions are highly controversial. Each of them is collateral to the basic questions which are answered by the ultimate facts specified above. Re-

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ardless of how any of these controversial questions might be decided by the Commission, the party aggrieved will, in all likelihood, test the validity of the Commission's action by an appeal. Such an appeal could and probably would carry with it this whole case. Thus to reach a final decision as to these collateral questions, the courts and the parties litigant would be encumbered with all of the time-consuming and delay-producing burden of this enormous and complicated record, notwithstanding the fact that substantially all of that record would not be material to the real justiciable controversies before the court.

It is our studied judgment that in the long run the settlement of the real justiciable controversies involved here will be materially expedited rather than further delayed if the ultimate facts about which there is little serious dispute are reduced to formal findings in this proceeding and those collateral questions about which there is a high degree of serious controversy are deferred until the time when in any event a further hearing must be had to take into account the changes in the property and in conditions which have occurred since December 31, 1941.

(3) *The Future Use of Basic Findings.* With these basic factual elements of the fair value problem settled as of December 31, 1941, by administrative findings in the nature of an adjudication, which may hereafter be introduced as prima facie evidence of those facts under conditions existing on that date, the parties, the Commission and the courts, unimpeded by an enormous and complicated rec-

ord, can proceed with certainty and dispatch to settle the all-important question of what the "present fair value" of the property is under conditions concurrently existing simply by supplementing the findings as to the particular facts covered thereby to account for changes which have occurred in the meantime in the property and in the conditions bearing on its value so as to bring those findings up to that date. And in such a proceeding, the Commission and the courts, on the basis of a comparatively short and streamlined record, can determine whether the cost of establishing business should be considered as an element of fair value as contended by the company and opposed by our staff and the cities, whether as urged on us by the cities of Kansas City and Trenton and by the Stabilization Director and the Price Administrator, the rate base should be determined according to the prudent investment theory or otherwise, whether as a matter of law rates can be fixed on a statewide basis as proposed by the company and the cities of St. Joseph and Trenton or on a local exchange basis as contended for by St. Louis and Kansas City, and likewise as to all of the other controversial questions which are common to the case as a whole.

Furthermore, inasmuch as § 5679 makes such findings of the Commission available as evidence in any action, proceeding or hearing wherein a city and the telephone corporation affected may be interested, the cities of St. Louis, Kansas City, and Joplin will be in a position to pursue separately the purely local questions that affect them specifically which are

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present here by virtue of the consolidation with the underlying valuation proceeding No. 9279, of the Grover Case, No. 8112, the St. Louis Case, No. 9280, or the Joplin Case, No. 9528, without being burdened or embarrassed by the great volume of evidence and record which is common to the case as a whole or is material only as to the other localities served.

In addition to that, while only the figures as to the cities appearing here on our record proper have been segregated and stated and our express finding will be limited accordingly, as the staff's investigation was carried out and as this record has been made any of the other Missouri cities in the company's system—and in fact the Commission sua sponte or any of the persons, corporations, or associations who are made proper complainants by our statute—can inaugurate any of the proceedings contemplated by our act where valuation is relevant, and use the comparable figures developed in this record with respect to that particular locality as prima facie evidence of the cost of reproduction new of the company's property associated with that locality, its cost of reproduction new less depreciation and its original cost together with the related materials and supplies and cash working capital, as of and under conditions existing on December 31, 1941. Counsel for the company in the course of the hearing stated with respect to the stipulations, that inasmuch as the whole is equal to the sum of its parts the company could not agree on the statewide totals without agreeing on the components thereof. So our general findings as to statewide totals

will carry with them by necessary implication a finding as to the corresponding figures with reference to the property of the company devoted to the service of any locality represented in those totals. The distinction will be that, whereas the figures for the three cities named have been assembled from the original sources and are expressly stated here, it will be necessary, if and when occasion arises to do so similarly to assemble the comparable figures from the original sources with respect to any local exchange covered by the staff's inventory, appraisal and audit.

In this way—and as we view it only in this way—can we, on the record before us and with substantial justice to all parties, attain an early realization of the essential and practical purposes of § 5679, and, as that section contemplates, provide a firm foundation on the basis of which we can in the future proceed in due course to the solution not only of the collateral questions arising here, but of those multifarious and complicated questions which are bound to arise out of the operation of this statewide utility in the postwar period which, at this writing, appears to be just around the corner.

While this course will eliminate for the present the necessity for examining the merits of most of the specific contentions arising before us, as they were stated above, it will not relieve us from considering those contentions which involve the correctness and validity of the estimates of the staff with respect to those elements of valuation embraced directly within the staff's investigation and reports.

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### III

#### *Objections to the Accuracy of the Appraisal*

The contentions which question the accuracy of the staff's investigation and report were advanced principally by the city of St. Louis and have heretofore been stated under Question No. 1 in the statement of the controverted questions before the Commission (see *ante*, p. 287). Reduced to their simplest terms, these contentions may be boiled down to the proposition that this Commission should either wholly reject or substantially revise the findings of our staff, (1) because Western Electric prices were used in pricing materials and equipment purchased from the Western Electric Company, (2) because the appraisals were on a piecemeal basis and not on a wholesale basis, (3) because of errors in principle in the computation of general overheads, (4) because of the application of excessive labor rates, and (5) because the appraisal of December 31, 1941, was trended from the inventory and appraisal as of December 31, 1938. We will briefly consider these criticisms in that order:

[2, 3] (1) *Western Electric Prices.* In substance, the gist of the contention in this connection is that the intercorporate relationship between the Western Electric Company and the Southwestern Bell Telephone Company is such that there can be no arm's-length bargaining between them and, hence, that the prices for materials and equipment quoted by the Western Electric Company to its sister company are unreliable for appraisal purposes. For this reason, it is contended, the appraisal of our engineers and the esti-

mates of original cost of our accountants are necessarily distorted and prima facie excessive because in substantial part the figures of our staff are based upon these prices quotations.

On behalf of the staff, it was testified in this connection that it was the staff's policy to appraise the property as it was found in the structure and if the unit found was a Western Electric item, it was appraised at Western Electric prices. On items where the Western Electric Company in effect acted as a purchasing agent for goods available in the open market and comparisons with price quotations prevailing under conditions of normal competition were possible, comparisons were made to test the fairness of the Western Electric price quotations. On items in this category it was found that quotations to the Western Electric Company to the Southwestern Bell Telephone Company were in fact lower than those prevailing in the open market generally. On items manufactured solely by Western Electric, no such comparisons were made for the obvious reason that there was nothing on which to base a comparison.

Explanatory of its procedure, the staff testified that in the course of its appraisal, it carefully considered all phases of this situation and concluded that any course other than that followed would have been arbitrary and to a considerable extent speculative or would have involved the adoption of prices applicable to substitute types of equipment and material. This latter course would have been a departure from the underlying purpose of this appraisal which was to reproduce in terms of cost the utility structure actually encountered by the staff.

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In accordance with the test formulated by the Supreme Court of the United States in the case of *Smith v. Illinois Bell Teleph. Co.* 282 US 133, 75 L ed 255, PUR1931A 1, 51 S Ct 65, the company introduced substantial evidence to show that the earnings of the Western Electric Company on its business with the Bell Companies have averaged 5.8 per cent during the past twenty-six years and were less than the profits of similar manufacturing corporations.

While it is undoubtedly true that a common parentage between a major material man and a utility such as exists here justifies the same sort of close scrutiny that the chancellor will apply to interfamily contracts and conveyances, such a relationship does not in and of itself constitute a badge of fraud or prove prima facie that the use of intercompany price quotations has resulted in a distorted or inflated appraisal. It is significant that although this matter has been the subject of a vast amount of critical investigation over the past quarter of a century, the price quotations of the Western Electric Company to the Southwestern Bell Telephone Company, and other Bell units, seem still to provide a typical example of Hobson's choice, particularly with reference to those items which are standard equipment in the Bell system, and which are manufactured only by the Western to a large extent under patent protection. As to this part of the company's property, there seems to be no alternative except to take the Western's quotations at face value.

We are not informed that any regulatory body has ever established a reliable differential whereby the influence (if any) of this intercorporate re-

lationship upon the intrasystem price-lists has been measured or by which we can discount, generally or specifically, the prices quoted therein to any lower level which will represent prices better suited to this purpose. The city of St. Louis offered no proof of that kind and did not provide us with any alternative figures whereby we might revise the computations of our staff. To the contrary, the city's witness, Mr. Doyne, testified that he did not know of any specific item of property involved in this proceeding which had been furnished by the Western Electric Company and was appraised at Western Electric prices for which the unit price used by the Commission's engineers in the appraisal was excessive.

Under those circumstances, we certainly would not be warranted in rejecting the report of the staff as unreliable or even in undertaking to revise its figures to allow for any excess simply because the appraisal and the estimates of original cost are based in part upon the price quotations of the Western Electric Company to the Southwestern Bell Telephone Company.

[4] (2) *Piecemeal v. Wholesale Appraisal.* The city of St. Louis objects to the Commission's engineers' appraisal because the reproduction costs of the buildings were calculated by our staff on the assumption that each building would be covered by a separate construction contract, which, it is asserted, is piecemeal appraisal, whereas the computation should have assumed that all the buildings covered by the appraisal would have been included as a unit in a single contract. This was also true, the city claims,

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with respect to certain pole lines, cables, and underground conduit. The city claims that "attendant" and "resulting" economies would have resulted from the use of the latter or wholesale method and that the use of the so-called piecemeal method resulted obviously in excessive costs. The only saving which was seriously urged as an advantage of the wholesale over the piecemeal method was the possible difference in contractor's overhead and profit. In effect the city argues that the overhead and profit of a general contractor building the whole plant as a unit would be less than the aggregate allowable on this account under several separate contracts.

In principle the same criticism is leveled at the fact that the units of material and equipment covered by the Western Electric price lists were calculated by relating the number of units in each item to the stated list price with no allowance for reductions justified by bulk purchases in the large quantities which would have been required to fabricate this plant all at one time.

As to the first of these grounds of objection, it is true that as a general rule the computation of reproduction cost new for appraisal purposes proceeds on the hypothesis that the utility plant would be reproduced as a whole according to the usual and ordinary processes and practices prevailing among architects, contractors and materialmen engaged in construction work of like kind under the same or similar circumstances. In so doing, the appraisal takes into account all of the attendant and resultant economies associated with a construction program of the kind and size under con-

sideration, including any advantage there might be in having a single contractor build the plant as a whole under a general contract.

But as a general rule, the utility property under consideration is a single homogeneous unit in terms of location, ownership, and jurisdiction and susceptible both for practical and appraisal purposes of being lumped into a single general contract and construction program. In those particulars, this case departs radically from the general rule. Here the staff was confronted with a heterogeneous body of property, as to which physical location was not a controlling factor, of which ownership was not solely in the company, and through which services within and services not within our jurisdiction were being rendered. Obviously the rule of wholesale appraisal invoked by the city of St. Louis is not and cannot be an inflexible one, and must and does yield wherever and to the extent that its application in a particular case is not feasible under all of the facts and circumstances existing therein.

In so far as it might or could be said that the Commission's engineers may have departed from the procedure which treats the appraised property as a whole, they did so in order fairly to differentiate between the various interests involved in this particular situation and to accommodate their computations to the unavoidable demands of separation and allocation.

Even so, the Commission's engineers testified that there was no essential departure from the principle of wholesale reproduction in this case, that all possible economies were taken into account and that the end result

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would not be materially different if they had followed strictly the procedure advocated by the city of St. Louis.

On the other hand, the city offered no evidence to the contrary and provided us with no yard stick, whereby we might measure the extent of any error there may have been on this account.

With reference to the city's suggestion that the magnitude of equipment purchases of the Western Electric Company for installation in the structure as a whole would have justified a reduction from list price, the testimony was to the effect that the price lists of the Western Electric Company to the Bell Company were computed on a wholesale basis in the first place and that the quantity purchased would not in fact influence the costs one way or another.

On the record before us, we are unable to reject or revise the figures of our staff in accordance with the city's contention that the appraisal should have been on a wholesale rather than a piecemeal basis.

(3) *General Overheads.* The city of St. Louis specifies four grounds for its objection to the appraisal arising out of the treatment and calculation of general overheads. These will be stated and discussed in order:

[5] (a) *Interest during Construction.* The city asserts that interest during construction should have been calculated at the rate at which money was available for the American Telephone & Telegraph Company to its subsidiaries and not at the rate of 6 per cent per annum.

Our engineers testified that they followed the long-established rule of this

Commission by allowing 0.25 per cent per month on property in process of construction and 0.5 per cent per month on completed property while it was idle. In practical effect, of course, this means an over-all interest rate of 6 per cent per annum for the use of the money as needed to finance the construction project. Our engineers took the position, following out the basic assumption, that a new enterprise, not yet a going concern, would raise the money needed for construction purposes under the handicap of being a new enterprise. Hence the going rate of interest on intercompany loans as between a parent corporation and a prosperous subsidiary in full operation would not be a true criterion to the cost of money which would actually be encountered under the conditions assumed for the purposes of this appraisal.

We believe the distinction is a sound one, and we can find no reason under the evidence here why we should change the standing rule followed by our staff in this instance.

[6] (b) *Engineering and Superintendence.* The city claims that the allowance for engineering and superintendence should have been 3.5 per cent of the net construction outlay instead of 5 per cent as allowed for the reason that the former figure was in line with the company's experience during the 3-year period covered by the hypothetical construction program.

The Commission's engineers testified that they based their action in this connection on the systemwide experience of the company over the 11-year period prior to December 31, 1938. The net expense on this account over that period was slightly more than 5

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per cent of the net construction costs. For the purpose of this appraisal our engineers adopted the round figure of 5 per cent as reasonable for this purpose. They point out in support of this action that during the earlier years of this 11-year period, the company was actually prosecuting an extensive construction program under conditions comparable with those postulated in the reproduction hypothesis. This construction program had tapered off in the latter years of the period, so that estimates based solely on those later years would not reflect the actual facts as closely as those derived from the entire period. Hence the 5 per cent figure was used instead of the lower figure based on statistics of a period which was in fact not comparable with a period of general construction.

In the face of this explanation, it is obvious that we are in no position to disturb the figures presented by our engineers.

[7] (c) *Preliminary Organization, etc. Expense.* The city of St. Louis complained that the Commission's engineers computed the items of "Preliminary, Organization, Legal, Administrative and Miscellaneous Expense" on the basis of 2 per cent of the prime construction cost, whereas the experience of the company in the 11-year period prior to December 31, 1937, in this connection indicated that less than 1 per cent was actually incurred within this category.

The Commission's engineers explained the difference between their allowance and the figure derived from the company's experience, by pointing out that as in the previous instance the conditions in the two periods are not

comparable. Manifestly there would be a substantial difference between the amount of expense for the purposes embraced within this item which would be incurred by the Southwestern Bell Telephone Company in the promotional and formative period while the utility plant was in process of being assembled and installed and that which was incurred by the company under conditions existing after January 1, 1928, when the system as such had attained the stature of full maturity and was operating as an established and going concern. On this account, the staff states, the figure derived from the company's experience in the last 11-year period prior to the appraisal date seemed clearly to be inadequate. Some allowance was necessary to cover those items of preliminary, promotional and organization expense which in the nature of things would arise in the initial stages of the enterprise and would not be incurred in the period covered by the company's statistics.

Necessarily such an estimate must be a matter of good sound judgment, considering all of the surrounding circumstances. On that basis, we can find no fault with the allowance made by the staff on this account.

[8] (d) *Interest and Taxes on Land.* The city also claims that the general overheads include interest and taxes on land during the construction period. In this contention the city fails to make a distinction which the staff made with reference to this item. Land was included in the appraisal as unimproved at its fair market value as such. Nothing has been added to that value by way of interest or taxes. However, in computing the costs which the company would incur in im-

proving that real estate for telephone purposes, the engineers were confronted by the fact that money would be required to buy and hold this real estate and to pay the taxes which would be levied thereon between the inception of construction thereon and the operation of the property. The ultimate investment in the structure would thus be augmented by the amount of these carrying charges exactly the same as it would be increased by the carrying charges for the central office equipment installed thereon during the unproductive period prior to operation. The inclusion of this item by the Commission's engineers was consistent with our established practice. (Re Union Electric Light & P. Co. (1937) 23 Mo PSCR 265, 17 PUR(NS) 337, 374.)

For the reasons stated in the course of the discussion of each of these specific complaints about the amounts of allowance for general overheads, we are not able to reject or revise the recommendations of our staff with respect to general overheads.

[9] (4) *Labor Rates.* The city of St. Louis claims that the labor rates used in the reproduction cost appraisals are in some respects excessive. The only specific instance of this kind which is pointed out was a difference between the labor rates used in the appraisal and the prevailing WPA rates applicable in St. Louis. The contention of the city is that a person would work at a steady 40-hour-week job extending over the entire construction period required to reproduce this company's property for the same rate of pay that he would accept to work on a temporary 30-hour-week relief job for the government.

The Commission's engineers testi-

fied that from their observation it did not follow that because WPA offered employment on a relief basis at a stated rate per hour for a limited number of hours per week, the labor required for a construction job of this kind could be obtained in the labor market at St. Louis or elsewhere at the same rate of wage.

In our judgment, based to some extent on conditions which were matters of common knowledge at the time, the pay scale of WPA would not control and did not control the general labor markets, particularly in those skilled and semiskilled categories of labor which would have been required on this job.

[10, 11] (5) *Trended Appraisals.* In this connection the criticism of the city of St. Louis that the 1941 appraisal was not based on a physical inventory but was obtained by merely trending the 1938 appraisal is advanced here more as a matter of caution as to the weight and sufficiency to be accorded the 1941 appraisal than as an outright objection to the appraisal itself.

The city complains that trending is a short-cut method and an inaccurate device which obviously does not reflect costs with the same degree of accuracy as is obtained by the preparation of a detailed appraisal. It asserts that the results are usually excessive.

Beginning with the topical title "The Re-appraisal of the Property as of December 31, 1941" (*ante* p. 268 et seq.), we reviewed in some detail the procedure followed by the Commission's engineers in bringing the inventory and appraisal of December 31, 1938, up to December 31, 1941. There we described the methods used by the Commission's engineers to de-

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velop index numbers which would accurately reflect the differences in price levels between the two dates, the manner in which the original inventory and appraisal were adjusted to account for the intervening capital additions and retirements, the extent to which the later appraisal was based upon trended figures and the extent to which it was not, etc.

If our conception of the purpose of § 5679, Rev Stats Mo 1939, as heretofore stated, is correct (see p. 289), it follows that that section contemplates that trending will be employed where it is feasible to do so to translate valuations as of a day certain under conditions then existing which have been established by formal findings into terms of conditions existing at a later date, with proper and necessary adjustments for intervening capital changes in the property of the utility by way of additions and retirements. Stated another way, it was clearly the purpose of the legislature to obviate successive inventorying of the property as the city contends should have been done here.

The testimony of the Commission's engineers was that they did not rely on general commodity indices in this instance but developed their own index numbers based upon a comparison of prices associated directly with this property as of the two dates. It is a matter of common knowledge, now generally accepted as standard practice in matters of this kind, that by the use of index numbers scientifically developed to reflect changes in prices with reference to the particular property involved as was done here, a base inventory and appraisal may be extended by this method with a high de-

gree of accuracy, so that the end result may be safely used in lieu of a complete relisting and repricing of the property in detail. This process of extension by computation implements § 5679 so that the findings of the Commission supported by a base inventory and appraisal becomes an administrative act of permanent usefulness and value.

We are satisfied that in this case the base inventory and appraisal as of December 31, 1938, was extended to December 31, 1941, in a good and workmanlike manner, that the methods employed were in accordance with standard practice and that the results embodied in the appraisal as of December 31, 1941, are sufficiently accurate to serve the purpose for which that appraisal was intended.

During the hearing, particularly in the course of the cross-examination of the staff's witnesses, and in the briefs that have been filed, various other criticism of the methods used by our staff were stated or suggested. None of them, however, was of a serious nature and it would unduly prolong this report if we should attempt to state and analyze them specifically. They have, however, been noted and considered by us. From what has been said with reference to those objections and criticisms it follows that we do not find reasonable cause to reject or revise the figures presented by the staff which are involved in the objections and criticisms which have been made.

### IV

#### *General Approval of the Estimates of the Staff*

The process of ascertaining figures expressed in dollars to represent an engineering estimate of the cost of re-

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production new that cost less depreciation and an accounting statement of original costs where, as here, complete records are not available and complex allocations and separations must be made, is not an exact science, which follows any fixed rules that make it a precise, semi-automatic process. On the contrary it proceeds on the theory that reasonable measures only are essential and that extreme nicety is not required. The process involves many controversial questions relating to methods and procedures which in themselves are elastic enough to be adapted to the facts and conditions in each individual case as they arise in actual practice.

Much of the value of a computation of this kind depends upon the integrity, industry, and thoroughness of the staff in making the primary investigation and assembling the great volume of facts and figures which constitute the basis for such an appraisal. In so doing and in translating these facts and figures into the form and terms of a useful appraisal, a great deal depends upon the soundness of judgment and honesty of purpose of the staff in matters of method and procedure.

In a certain sense the Commission as the finder of the ultimate facts is to a large degree at the mercy of its staff, Doubtless that situation had much to do with the fact that in prescribing the administrative process to be followed in reaching formal findings of fact on valuations in these matters, the legislature proscribed all semblance of unilateral determination by the Commission and required notice and an opportunity to be heard as a condition precedent to such finding. Thereby the legislature provided an open forum

as a safeguard where deficiencies due to a lack of industry in investigation, soundness of judgment or honesty of purpose could be exposed and rectified before the action of the Commission passed into the permanent form of a final finding.

In this case, that opportunity to be heard on the issue of the accuracy and reliability of the work of the Commission's staff has been afforded, not only to the utility affected, but to the various cities, towns, and villages involved to the end that all who might have objection thereto would have a full and fair day in court. In accordance with the letter and spirit of the law, the parties in interest have had such a day in court and have been fully heard.

In that hearing no objection to the work of the staff was stated or intimated which involved either its industry in action or its honesty of purpose. So far as its work has been seriously questioned, the criticisms arise in the field of judgment. We have here endeavored to state those criticisms correctly and analyze them in the light of the record.

After so doing, we are thoroughly persuaded that the estimates of our engineers and accountants, as of December 31, 1941, of the reproduction cost new, the reproduction cost less depreciation, and the original cost of the property of the Southwestern Bell Telephone Company used and useful in rendering telephone and associated services to the people of Missouri, together with allowances for necessary materials and supplies and cash working capital were carefully, skillfully, and honestly prepared and that the reports so prepared by them as a result of their work and filed with this Com-

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mission and referred to herein constitute a full, true, and correct inventory and appraisal of the properties of the company on the bases stated.

As to the other questions arising in this case, the Commission believes that decision and action should be deferred to another time with these two exceptions. The question of whether regulation should proceed on a "board-to-board" or a "station-to-station" basis seems not to be seriously controverted on this record. The question of whether telephone rates, at least in the case of this company, should be on a statewide or local exchange basis, although it is highly controversial and to some extent foreign to the real issues here, has an important bearing on the extent and scope of future investigations of this company and its rate structure. As a practical matter we believe it will serve a useful purpose if the Commission here and now declares its administrative purpose and future policy in that connection for the guidance of those interested in this matter. Hence, to the extent and within the limits hereafter stated, the Commission will now state its views on these two questions.

### V

#### *"Station-to-Station" Basis Adopted*

[12] With respect to the question of whether the valuation of the property (and, consequentially, whether the future computation of rates) should be on the "board-to-board" or "station-to-station" basis, the record is in such condition, as it seems to us, that this aspect of the matter may very well be included in the noncontentious category and disposed of here and now in order to simplify future consideration.

We have heretofore under the topical title, "'Board-to-Board' and 'Station-to-Station'" (*ante* p. 267) described the distinction between these two methods of accounting and price fixing. Briefly stated, the distinction between them is that whereas the "board-to-board" method accounts for all local exchange property and operating expense as a local exchange burden, under the station-to-station method of computing the cost and tariffs for long distance service, the extent that the local exchange property and expenses are involved in transmitting long distance messages from the patron's telephone station or instrument at the point of origin to the telephone station or instrument at the point where the call is completed is measured separately from the local exchange property and expenses and is allocated to the toll property and expenses. The end result of the latter method is that the long-distance department of the company's business will carry a larger investment and be charged with more operating expense than on the board-to-board basis while the property and expenses of the local exchange department will be correspondingly reduced. The purpose, as heretofore stated, is to shift the burden of performing a long distance function from the purely local business of the company where the board-to-board method places it to the toll business where the station-to-station method places it in order that that burden may fall directly upon the subscribers who make use of the long-distance service in proportion to that use. Thus the subscribers who do not use the long-distance service will be relieved of carrying any burden on that account as part of their cost for local

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exchange service and those who do use it will pay, little or much, as the extent of that use indicates.

As this record now stands on that question, while the staff, in order to present to us the full picture, has computed the appraisal according to both methods, it recommends that the station-to-station method be used hereafter. The cities which appeared at this hearing likewise urge us to adopt that basis. On its part, the company stands mute and neither consents to nor opposes the adoption of that method.

Although it does not appear in the record before us, it is a matter of general knowledge in the regulatory field that the station-to-station method is now in common use and is recognized as the proper method of accounting and rate making. We are satisfied that it does accomplish a fairer and more equitable distribution of burden as between the different classes of users of telephone service. Hence we are determining that the station-to-station method should become the approved method in this state and accordingly are limiting our findings to reflect only the figures on the station-to-station basis.

### VI

#### *Declaration of Policy on Statewide Rates*

In the course of the hearing of this case, it was agreed among those present and participating that, notwithstanding the fact that the issue here was limited to the matter of valuation, the Commission could decide in this case whether the company's rates in the future should be upon the so-called statewide or local exchange basis.

Some testimony was presented by the company on this subject, see *ante*, p. 283), and the company's witness thereon was subjected to cross-examination by the various parties. In its brief the company urges the adoption of the statewide policy. In their briefs, the cities of St. Louis and Kansas City have registered their protests against such action principally on the ground that it is a radical departure from the existing system, that it will operate unfairly by throwing an undue burden upon the telephone users in those cities, and that the law of Missouri does not authorize the formulation of a rate structure as proposed by the company based upon a classification of local exchanges according to size without regard for the value of and the return on the property directly involved in the local service.

On reflection it seems to us now that this issue is largely moot and academic at least in this particular case. This is true because, so far as valuation is concerned, our staff has developed and presented its figures from both points of view. This approach to the problem was consistent with the purpose of the Commission and the staff to make the investigation in this instance comprehensive and all-inclusive, so that the Commission would be fully informed of all the facts about this company and could proceed to regulate it intelligently.

However, as we view the situation at this stage of the proceedings, about the only affirmative action we could take at this time by way of deciding to adopt the statewide basis of rate making would be to reject as immaterial all of the evidence collected and presented by the staff with respect to the

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elements of value in each local exchange area and to refuse on that ground to make separate findings as to those matters with respect to the cities which have petitioned us for specific valuations. Manifestly that would not be a wise or practical thing to do at this time. It seems to us that it will promote and expedite the ultimate settlement of this vital question if we follow through on the course charted by the staff, find the facts on both theories and defer formal and final decision until later.

Once the basic elements of value are fixed on both theories by a final order to that effect, the question will then arise as to what rates and charges for the company's services are just and reasonable and not unjustly discriminatory or unduly preferential which will "yield reasonable compensation (to the company) for the service rendered with due regard, among other things, to a reasonable average return upon the property actually used in the public service, etc." (See § 5670 Rev Stats Mo 1939.)

As we view this matter the issue of whether we can as a matter of law or should as a matter of policy determine and fix those rates on a local exchange basis as urged by the two cities or on the statewide basis as proposed by the company is not presented here as an actual controversy ripe for decision. Whatever we may think about it as an abstract proposition, any concrete action we might attempt to take here would be academic and premature. That issue will be ripe for decision when the Commission, in one way or another undertakes to determine what rates, charges, and rentals the telephone company will be permitted

thereafter to demand and collect from its patrons. At that point our decision on the merits of this controversial and complicated question can be translated into clear-cut affirmative action in the form of a direct order prescribing rates on one basis or the other. Then anyone who may be dissatisfied with the decision and action of the Commission on this issue can test the reasonableness and lawfulness of that action upon review in the manner provided by our act upon a relatively short and simple record. We are confident that that course will prove speedier and more satisfactory all around than an attempt to *decide* this question in this case.

However, while we eschew formal decision in this matter at this time, we believe it might be helpful by way of clarification for us to express our views on this question for the information and guidance of those who may be concerned. These observations may be considered as a declaration of administrative purpose and policy with respect to the course to be followed in the future in this connection. As will be apparent, the reasonableness and lawfulness of our conclusions may be questioned later and there is no purpose or intention on our part to foreclose or limit any one in that quarter. In fact we believe that a candid statement of our views in advance will permit those who disagree therewith better to prepare to review them later in a proper case.

As heretofore more fully described [omitted herein], the property of the Southwestern Bell Telephone Company in Missouri grew to its present stature through three distinct phases of development: First, through the orig-

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inal construction of local "telephone offices" which usually were locally owned and managed; second, by the company's acquisition of local units of that kind and their integration into the Bell System up to about 1925; and third, by the expansion and improvement of that system, including those local units, since that time through original and extensive construction by the company.

The net result is that the property of this company in Missouri today is not an aggregation of readily identifiable local units, but in truth and in fact is a homogeneous body of utility property which is part of a 6-state telephone system that is operated as a whole. As described in this record, and as is well known, no local exchange area in the Bell System in Missouri is either wholly local or locally whole in the same sense that a telephone company which serves a single community and is independent of any telephone system is locally whole and wholly local. It seems to us that the facts disclosed by this record prove beyond a reasonable doubt that any method of rate making is simply not feasible or effective which proceeds on the hypothesis that the individual who is served by this company should be charged for the service he receives as much as and no more than he would be charged if he were being served by a telephone exchange which was wholly local and locally whole.

The time lag which has occurred in this case and which now constitutes the principal obstruction to full and final disposition at this time of the important questions involved in the establishment of a rate structure for this company in Missouri has been due

largely to the fact that the object of this investigation has been to restate the figure facts of this completely integrated and unitized property in terms of local exchange areas in much the same way that those facts would have been stated if the investigation had involved the same number of local independent telephone companies as there are separate exchange areas in Missouri in this company's system.

Even so, the job is only partly done. Two further steps are necessary before we can reach the goal of a rate structure in which the company and consumer interests are brought into that balance on the basis of the facts which our act contemplates. First, the elements of value as of December 31, 1941, must be brought up to date. Second, the field of revenues, expenses and depreciation as of the present time must be explored. If the "local exchange basis" of rate making is to be perpetuated in Missouri these two operations will require the recalculation of the separations and allocations and the extension of those computations to embrace each of the seventy-one exchange areas (and any that may have been added in the meantime), in the same manner that the appraisal of December 31, 1938, together with the separations and allocations were extended to December 31, 1941.

In addition to that, it will also be necessary to re-audit the books and to carry out the same process of separation, apportionment and allocation, as to expenses, depreciation, etc., with respect to each of those seventy-one or more exchange areas. When it is realized that this will necessitate the division and allocation into terms of the local exchange areas of such system-

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wide overhead items as general administrative expenses, including, for example, the salaries of the president and other general officers and their staffs, Federal income taxes, allowances for depreciation (which in regular course of the company's business are not now segregated even on a statewide basis) and others of like kind, the underlying fallacy of this method of rate making as a practical, workable implement of regulation becomes crystal clear. It takes too much time. It is unrealistic in the extreme. It assumes that as between the company and the patron in the matter of rates and charges, the telephone business is essentially a local enterprise, a group of "telephone offices" interconnected with long-distance wires as they were in the pioneer days of the industry. The local exchange method assumes facts which do not exist and leads to results which in truth and in fact frustrate and defeat the primary purpose of rate regulation.

As an alternative, the company proposes a rate structure which entirely ignores the local exchange area as a factor in the local rate and proceeds frankly on the theory that the local services which the company renders have different values to their subscribers in different parts of the state, depending on differences in the physical, industrial, commercial, social, business, and residential needs and conditions existing in the respective communities and that these factors affecting the value of the telephone services vary as the population of the communities vary.

For illustration, the company asserts that a businessman in the city of Lancaster with a population of 886

and 254 telephone stations connected with its exchange, should be charged \$3 per month for the telephone service he receives through his business phone, and that a similar subscriber at the neighboring county seat, Kirksville, with 10,080 people and 2,725 connected telephones, should be charged \$4.25 per month for his business telephone, and that the counterpart in St. Louis of these two country businessmen should be charged \$14 per month for his local service, the population in the St. Louis District Exchange Area being very substantially more than 1,000,000 and there being over 250,000 connected telephone stations in that district exchange area.

In this connection the company produces statistics derived from its operating experience to show that not only is the telephone a *potential* means of communication with a greater number of people in the larger communities, but that as the size of the community increases the actual daily use of the telephone increases as represented by the average number of calls per telephone per day. For example, these figures show that in Lancaster, which is a typical small town where, in the ordinary course of living the people can and do see each other face to face from day to day, the average subscriber uses his telephone less for local service than does a subscriber in Kirksville, where the distances of the larger community prevent face-to-face communication to the extent that it exists in Lancaster, and that correspondingly the subscriber in Kirksville uses his telephone less than one in St. Louis where the subscribers are distributed over a large district exchange area. In other words as the size of the community re-

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duces the opportunity for personal contacts, the daily use of the telephone increases.

Also these figures show that as a necessary consequence of the physical facts and the conditions of habitation in the larger communities as compared with the smaller ones, the average distance between the points of origin and reception of local telephone calls increases as the size of the communities increase. Thus the subscribers in Lancaster and Kirksville, except for the limited service on the rural lines, can cover only short distances with their telephones on a local exchange basis, whereas the subscriber in St. Louis through the district exchange facilities established there, can reach persons living anywhere in the district exchange area, at a distance of 15 miles or perhaps more, on a local exchange basis. Whenever the subscribers in Lancaster or Kirksville talk with persons 15 miles away, they are compelled to pay a toll charge to cover the long distance service involved.

It is the contention of the company that the differences of this kind in the quantity and quality of service received by the subscribers at Lancaster and Kirksville and St. Louis, justify differences in the rates at those respective points which in some degree at least measure the actual differences which in reality exist between the value of the service rendered and benefits received by the subscribers at the three points.

On this theory the company asserts that by giving due weight to the various factors bearing upon the benefit and value of the service as enjoyed by the subscribers under the various conditions existing throughout the

company's system in Missouri, the local exchange areas may be classified into nine groups according to the number of telephone stations connected with each exchange and that group-rates may be fixed, applicable to the exchanges falling within the brackets of the respective groups, which will realize the objective of the statute that the rates and charges for telephone service demanded from the customers shall be just and reasonable without unjust discrimination or undue preference and at the same time will produce sufficient total revenue from the company's statewide operations to meet the requirements of the statute and the Constitution that the rates shall be reasonably compensatory to the company.

The objection of the cities of St. Louis and Kansas City to this method of fixing telephone rates and charges boils down to the proposition that the high rates and large volume of business in the metropolitan areas will produce a local revenue substantially in excess of that necessary to meet the requirements of expenses, depreciation, and allowable return when those exchange areas are considered separate and apart from the system as a whole; that the low rates and limited volume of business in the smaller exchanges will in many instances produce either outright losses or net earnings less than the level of a reasonable return, and that if the local exchange area is to be ignored as a rate unit, and the company's property in the state as a whole is to be used as the basis for determining the allowable average return upon the property actually used in the public service, a substantial portion of the high rates paid by the subscribers in

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the highly profitable metropolitan areas will be used to make up the deficiencies and losses encountered in the submarginal exchanges in the system. For this reason, the cities claim that the rates fixed for their telephone users on a value-of-service basis as proposed will be unjust and unreasonable at least to the extent that their high rates carry the burden of the small and weak exchanges in the low-rate brackets and that such rates will be unjustly discriminatory as against the city subscribers and unduly preferential in favor of the subscribers in the smaller communities, all contrary to the statute and to the cardinal rule of rate making that one ratepayer shall not be required to pay too much because another pays too little.

In answer to this, the company in effect contends that, not only does the city subscriber get more real service value for his money even at the high rate than the subscribers in the smaller cities and towns, so that on a comparative basis his rates are in all respects just and reasonable but that a unified telephone system with a uniform high standard of service and equipment contributes much to the development of the areas in which it operates and to the state at large; that there is such a community of commercial and social interests between the metropolitan centers and the tributary cities and towns in their trade territories, that it is a material matter of vital importance to the cities that the lines of communication into the hinterland be as efficient and as widely distributed as possible; and that if its Missouri property as a whole is not to be considered as the rate base and as a consequence the company is to be held

within an allowable level of return in each of the individual exchange areas, the rates in the smaller exchanges will be prohibitive and the company will be forced to abandon exchanges it now maintains and will be discouraged from extending its system into new territory, all to the detriment of the system, the service thereby provided, the rural communities and consequently to the metropolitan areas themselves. For these reasons the company asserts that the differences in rates which are claimed to be discriminatory to the city subscriber are not unjustly so or the preferences to the rural subscribers if they be preferences are not undue or unreasonable.

Assuming that these contentions and counter-contentions, which frame the real issue between these two concepts of rate making, can be sustained by the facts (as we are satisfied they can be), a clear question of law arises which has not been decided by the courts of Missouri as to whether a statewide rate structure built upon a value-of-service basis and designed to produce sufficient gross revenue from Missouri as a whole, to pay the overall expenses and depreciation incurred in the Missouri business and yield a reasonable average return upon the lump-sum value of all the property actually used in the public service in Missouri, is permitted or prohibited by our statute.

For the present and for this purpose we are inclined to believe that when the various provisions of our act which bear on this subject are considered together and construed reasonably according to their plain, ordinary and usual meaning, with a view to the public welfare, efficient facilities and

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substantial justice between this company and its patrons, they will be found to permit rather than to prohibit statewide rate making, particularly under the facts and circumstances existing in this instance.

At least we are unable to spell out of the general language which the legislature used in defining the standards which we are required to observe in fixing or approving rates for telephone companies in Missouri any clear command that we should adopt a method of rate making which is as impractical, unworkable and unadaptable to the conditions to which it is to be applied as is the "local exchange basis" in connection with the properties of the Southwestern Bell Telephone Company. Hence, we shall assume that if, upon a full hearing in which the requirements of due process as to all parties in interest are fully satisfied, this Commission should approve a rate structure for the Southwestern Bell Telephone Company such as that proposed here, based upon a reasonable classification of the local exchange areas, that action will not be held to be unjust, unreasonable or unlawful within the meaning of the sections of our act relating to judicial review. In short, we shall proceed on the assumption and the considered belief that statewide rate making in Missouri in the case of this company at least, is lawful.

We are fortified in our belief that on general principles such action is lawful by a consideration of the practice in this matter elsewhere in the nation. The company offered evidence to the effect that in thirty-two states the integrated statewide basis of rate making has been adopted. We have

been able to verify this fact from the published reports of the state Commissions available to us in eleven states, in some of which, notably Pennsylvania, New York, and Maryland, the conflict between the metropolitan districts and the rural areas is comparable if not more serious than it is in Missouri. It will be found that the various aspects of this problem are ably and extensively discussed in the opinions in these cases. These published cases are as follows:

Pennsylvania: *Re Uniform Telephone Rates*, PUR1917D 259; *New Castle v. Bell Teleph. Co.* PUR1921B 378; *Long v. Lehigh Teleph. Co.* PUR1927A 772; *Geisenger v. Bell Teleph. Co.* PUR1932D 518; *Spriggs v. Bell Teleph. Co.* (1934) 3 PUR (NS) 42.

New York: *Re New York Teleph. Co.* PUR1922A 497; *Re New York Teleph. Co.* PUR1930C 325.

Maryland: *Re Chesapeake & P. Teleph. Co.* PUR1920F 417; *Public Service Commission v. Chesapeake & P. Teleph. Co.* PUR1925B 545.

West Virginia: *Re Chesapeake & P. Teleph. Co.* PUR1921B 97.

Georgia: *Re Southern Bell Teleph. & Teleg. Co.* PUR1921C 833.

Oregon: *Re Pacific Teleph. & Teleg. Co.* PUR1922C 248.

Indiana: *Re Indiana Bell Teleph. Co.* PUR1924A 1.

Montana: *Public Service Commission v. Mountain States Teleph. & Teleg. Co.* PUR1924C 545.

Colorado: *Re Mountain States Teleph. & Teleg. Co.* 3 Ann Rep Colo PUC 122, PUR1917B 198.

Wisconsin: *Re Wisconsin Teleph. Co.* PUR1931E 135, s. c. PUR1932D 173.

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Massachusetts: *Lynn v. New England Teleph. & Teleg. Co.* (1942) 42 PUR(NS) 1.

With these expressions of our views on this phase of the matter merely as a declaration of administrative policy, we shall proceed according to plan to close this case on the question of valuation alone, inasmuch as that plan not only lays the foundation for further action in accordance with these views, but preserves to the cities all of the materials necessary to test the legality of such action in a later proceedings where this question will present a real controversy, ripe for decision.

In the meantime all concerned may proceed on the assumption that as a matter of administrative policy, this Commission favors in principle the statewide method of rate making for the Southwestern Bell Telephone Company in Missouri and, unless persuaded to the contrary in the meantime, will act accordingly if and when occasion to do so presents itself.

In so adopting the general principle of state-wide method of rate making, it should be understood that the Commission recognizes that conditions may warrant further studies of the the rates charged in local exchanges and any statewide method of rate making will not preclude the Commission from adjusting any inequities, unreasonableness, or unduly preferential rates in a particular exchange area.

### *Conclusion*

Consistent with a long-standing custom of this Commission, the foregoing report was prepared to state the substance of the record and evidence

in this matter, the contentions of the parties and the issues arising before us, together with our views on the matters and things involved and our reasons for the action we are taking.

On first impression, the most imposing feature of this report may seem to be its length and volume. By way of explanation, if any explanation is needed under the circumstances, we would remind him who is so impressed that it was stated in the course of the hearings (and is a fact) that the working papers supporting the principal exhibits introduced by the Commission's staff aggregated about 8 tons dead weight. That 8 tons of working papers contain the raw material out of which first was fashioned the basic inventory, appraisals and audit reports which constitute the principal exhibits of the staff, themselves consisting of more than five thousand pages of typewritten matter to a large extent skeletonized in the tabular form of statistical statements. When the record proper, the evidence and the contentions and arguments of the parties were superimposed on that already topheavy structure, the problem of formulating a fair and clear statement was not without its own difficulties. The demands for completeness and conciseness seemed to be in hopeless conflict. Necessarily, the result is an unavoidable compromise between the two.

In practical effect this report is a further refinement of the vast body of material which now constitutes the record in this case. If that record, as a compendium of information relating to the Southwestern Bell Telephone Company, is to have any permanent value (which the statute certain-

ly contemplated it should have) this report must be sufficiently complete to serve as a guide and key to the contents of that record. We have endeavored here to state as simply as the complex and intricate facts and circumstances permit how that record was built and the essence of what it contains. This was done, not only to explain and construe the findings which are being derived therefrom as we desire that they be understood in the future, but to facilitate the use of that record by those who come after us as the source of the basic material on which future regulation of this company may be predicated.

However, while an analysis of that kind is a valuable by-product of this process of fixing basic values by administrative action, and a necessary, if not indispensable, implement in the tool-chest of regulation, it is essentially an intermediate step between the inception of the investigation inaugurated by the Order of November 25, 1936, and the official formal findings we are required to make by § 5679, Rev Stats Mo 1939, permanently fixing values as of a time certain under conditions then existing by administrative action.

There seems to be no good reason why those findings in their final statement should not be as concise as the verdict of a jury or why the official document by which those findings are made a matter of record should not be as short as a judgment entry following such a verdict. It seems to us that, as the mandate containing the ultimate judgment of an appellate court is separate from the explanatory opinion from which it derives, depending thereon only for purposes of construc-

tion when construction is later required, so the formal findings of this Commission contemplated by § 5679, Rev Stats Mo 1939, may be separated from this statement of the evidence and our conclusions as they appear in this report. This report then may serve in the future to explain those findings, when explanation is required, as the court's opinion explains its mandate.

Therefore, in keeping with our stated purpose to streamline this aspect of the matter as much as possible to facilitate future proceedings involving this company wherein the value of its property in Missouri will be a material fact, we are reducing our present action to the shortest and hence most convenient form possible, and are stating our official findings in a separate document which is complete in itself and may hereafter serve as the official evidence of our decision and determination of the matters involved herein.

In so doing, we are conforming to the procedure prescribed by § 5679, Rev Stats Mo 1939, and at the same time are obviating in advance the necessity of burdening records in future proceedings wherein our present findings may be introduced as evidence with the lengthy and perhaps immaterial statements and discussions which the circumstances have compelled us to include herein.

With respect to such future proceedings, for the information of those concerned we might say this: In connection with the valuation studies herein discussed, the Commission's staff made comprehensive studies of the company's revenues and expenses allocable to its operations in Missouri for the year ending December 31,

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1941, to correspond with the date of the extended appraisal. Applying the results of those studies against a rate base comprised of original cost plus material and supplies and cash working capital as of that time, our staff reports that a return of 5.73 per cent for the year 1941 was indicated.

Our staff has watched the results of operations of the company since 1941 closely and reports to us that the trend of earnings compared to such rate base has been consistently downward. In view of this trend we hesitate to order a rate investigation of the company at this time to supplement the findings made here. On the basis of our present information with respect to the earnings of this company, there are no reasonable grounds for believing that such an investigation would result in a reduction in rates. Hence in all likelihood the expenditure both of money and manpower would not be justified.

However, in as much as the information before us does not support a belief that the earnings of the company are excessive, we think it is a matter of simple fairness and candor to state for the information of the parties directly interested here and of the public generally that we now entertain no intention of inaugurating a general rate investigation of this company, on our own motion.

We are, however, returning the Grover (Kansas City), Dickmann (St. Louis), and Joplin Cases to our general docket for such action as the parties interested therein may desire to take. These statements with respect to the present situation are of course based upon information not in this record and are made solely for the

information of the parties and not as a finding in any sense. Furthermore, we are not to be understood as prejudging this matter in any degree and will be guided by whatever facts may appear before us in a regular way.

### FINDINGS AND ORDERS

This matter (No. 9279), hereafter referred to as the Valuation Case, originated as an investigation initiated by the Commission on its own motion by an order issued on November 25, 1936, wherein its engineering department was directed to make an inventory and appraisal of the property of the Southwestern Bell Telephone Company and its accounting department was directed to make an audit of that company's books to the end that the Commission could determine the fair value of the company's property used and useful in rendering telephone service within our jurisdiction to the people of the state of Missouri.

Thereafter by appropriate orders there was consolidated with the Valuation Case (at least for the purposes within the scope of the order of November 25, 1936) the cases as above entitled, to wit: Benjamin W. Grover v. Southwestern Bell Teleph. Co. No. 8112; Dickmann as Mayor v. Southwestern Bell Teleph. Co. No. 9280; Joplin v. Southwestern Bell Teleph. Co., No. 9528.

In the meantime the engineering and accounting departments inaugurated and prosecuted the preliminary investigations and examinations comprehended and contemplated by the Order of November 25, 1936, and in due time prepared and filed with the Commission the following written reports, to wit:

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(I) Report of the Inventory and Appraisal of the Southwestern Bell Telephone Company's Property as of December 31, 1938 (Vol. I to Vol. IX inclusive), by the Engineering Department.

(II) Separation Reports, by the Engineering Department.

(a) Station to Station Separation as of December 31, 1938 (Volumes I and 2).

(b) Board to Board Separation as of December 31, 1938 (Volumes I and 2).

(III) Audit of Accounts of Southwestern Bell Telephone Company as of December 31, 1938 (Volumes I and II) by the Accounting Department.

(IV) Appraisal and Separation of Property of Southwestern Bell Telephone Company as of December 31, 1941, by the Engineering Department.

(V) Audit of Accounts of Southwestern Bell Telephone Company as of December 31, 1941, by the Accounting Department.

Thereafter more than thirty days' written notice specifying that this case had been set for hearing on July 12, 1943, at the office of the Commission at Jefferson City was given to the Southwestern Bell Telephone Company, the Director of Economic Stabilization, Washington, D. C., the Office of Price Administration, St. Louis Missouri, the city counsellors of the cities of St. Louis, Kansas City, St. Joseph, Springfield, and Joplin, the county counsellor of St. Louis county, and the mayor or postmaster of the following cities, towns and villages in the state of Missouri, to wit: [List omitted.]

On July 12, 1943, at the office of the Commission in Jefferson City, this matter was regularly called for hearing, in accordance with such notice, and hearings were held on that date and on July 27, 28 and 29, and August 12, 1943. The following appeared and participated in said hearings: The Southwestern Bell Telephone Co., the Office of Price Administration, the cities of St. Louis, Kansas City, St. Joseph, Trenton, Moberly, and Marceline.

At that hearing the Commission's staff presented and offered in evidence the information it had ascertained and assembled in the course of its investigations and examinations pursuant to the order of November 25, 1936, together with the results of its studies and analyses thereof. The company, the city of St. Louis and other parties present offered evidence to support their contentions.

All parties present having announced that they had no further evidence to offer, this matter was submitted on the record with leave to file written briefs and suggestions as the parties should desire.

Thereafter, the evidence offered and received at such hearings was reduced to writing and written briefs and suggestions were filed with the Commission, all of which have been fully and carefully considered by the Commission.

The record in this matter, the evidence received at the hearings, the contentions of the parties as stated and discussed in the briefs and the Commission's views with respect to the matters and things involved here have been reviewed, stated and analyzed in an extensive report which is being filed concurrently herewith. Reference is made to that report for any explanation or elaboration of the "findings and orders" we are making here, if and when such explanation or elaboration is desired or required. But, as explained therein, in order to reduce our official formal findings in this matter to shortest and hence most convenient form for future use in matters involving the Southwestern Bell Telephone Company where the value of its property included in this inves-

# MISSOURI PUBLIC SERVICE COMMISSION

tigation as shown by the Record is relevant, the Commission is making in this separate document its findings of fact in writing as provided by § 5679 Rev Stats Mo 1939, upon the matters hereafter specified concerning which evidence was introduced before it, which in its judgment have bearing on the value of the property of the Southwestern Bell Telephone Company.

And now being fully advised in the premises, it is by the Commission,

*Ordered:* 1. That all of the evidence introduced at the hearings in this matter as described above heretofore reduced to writing, shall be certified under the seal of the Commission as being a full, true and correct transcript of all of such evidence and shall be filed in the permanent records of this Commission.

*Ordered:* 2. That the following findings are and shall be considered as the findings of fact made and filed by this Commission under § 5679 Rev Stats Mo 1939, upon the matters therein specified concerning which evi-

dence was introduced before it and which, in the judgment of the Commission, have bearing on the value of the Southwestern Bell Telephone Company.

## Finding "A"

### (Statewide Totals)

(1) The Commission finds as matters of fact that, as of December 31, 1941, the cost of reproduction new, the cost of reproduction new less depreciation and the original cost of all of the property collectively (including materials and supplies in each instance) of the Southwestern Bell Telephone Company used and useful in rendering local exchange, intrastate toll and interstate toll telephone and allied services to the public in the state of Missouri, separated and allocated on the station-to-station basis to reflect the relative use of the property in the rendition of the respective services, all as more fully explained in the Commission's Report concurrently filed herewith, were as shown in the following table:

	Cost of Reproduction New	Cost of Reproduction New Less Depreciation	Original Cost
Local Exchange .....	\$101,002,762	\$88,979,489	\$100,550,613
Intrastate Toll .....	14,123,867	12,439,606	14,503,647
Interstate Toll .....	8,954,897	7,893,693	8,736,021
Property Used in Public Service in Missouri (table a)	\$124,081,526	\$109,312,788	\$123,790,281

(2) The Commission further finds that, as of December 31, 1941, the value of the associated materials and supplies included in the foregoing figures and the amount allowable for cash working capital for the state as a whole (not included in those figures) all as more fully explained in

said report were as shown in the following table:

	Materials and Supplies	Cash Working Capital
Local Exchange .....	\$598,856	\$632,513
Intrastate Toll .....	102,641	82,045
Interstate Toll .....	56,144	54,281
Totals .....	\$757,641	\$768,839

(table aa)

# PUBLIC SERVICE COMMISSION v. SOUTHWESTERN BELL T. CO.

## *Finding "B"*

### *(Kansas City District Exchange Area)*

(1) The Commission finds that upon the record now before the Commission, it is not feasible to segregate and state the facts and figures relating to the city of Kansas City, Missouri, separately from the facts and figures relating to the Kansas City District Exchange Area as defined and described in the Report concurrently filed herewith.

(2) The Commission further finds that as of December 31, 1941, the cost of reproduction new, the cost of reproduction new less depreciation and the original cost of the property (including materials and supplies in each instance) of the Southwestern Bell Telephone Company, used and useful in rendering local exchange telephone and allied services to the public in the Kansas City District Exchange Area, the value of the associated materials and supplies included in such amounts and the amount of the allowable cash working capital for said exchange area (not included in such amounts), determined on the station-to-station basis, all as more fully explained in said report, were as shown in the following table:

Cost of Reproduction New .....	\$35,729,135
Cost of Reproduction New Less Depreciation .....	31,136,804
Original Cost .....	35,197,420
Materials and Supplies .....	207,610
Cash Working Capital .....	201,100

(table b)

## *Finding "C"*

### *(St. Louis District Exchange Area)*

(1) The Commission finds that upon the record before the Commission it is not feasible to segregate and

state the facts and figures relating to the city of St. Louis separately from the facts and figures relating to the St. Louis District Exchange Area as more fully defined and described in the evidence.

(2) The Commission further finds that as of December 31, 1941, the cost of reproduction new, the cost of reproduction new less depreciation, and the original cost of the property (including materials and supplies in each instance) of the Southwestern Bell Telephone Company, used and useful in rendering local exchange telephone and allied services to the public in the St. Louis District Exchange Area, the value of the associated materials and supplies included in such amounts and the amount of the allowable cash working capital for said exchange area (not included in such amounts) determined on the station-to-station basis, all as more fully explained in said Report, were as shown in the following table:

Cost of Reproduction New .....	\$52,058,763
Cost of Reproduction New Less Depreciation .....	46,373,410
Original Cost .....	52,117,669
Materials and Supplies .....	292,206
Cash Working Capital .....	342,021

(table c)

## *Finding "D"*

### *(Joplin)*

(1) The Commission finds that as of December 31, 1941, the cost of reproduction new, the cost of reproduction new less depreciation, and the original cost of the property (including materials and supplies in each instance) of the Southwestern Bell Telephone Company, used and useful in rendering local exchange telephone and allied services to the public in the

# MISSOURI PUBLIC SERVICE COMMISSION

Joplin Exchange Area, the value of the associated materials and supplies included in such amounts and the amount of the allowable cash working capital for said exchange areas (not included in such amounts) determined on the station-to-station basis, all as more fully explained in said report, were as shown in the following table:

Cost of Reproduction New .....	\$1,086,837
Cost of Reproduction New Less Depreciation .....	945,548
Original Cost .....	1,103,017
Materials and Supplies .....	8,260
Cash Working Capital .....	8,228

(table d)

## Finding "E"

(Local Exchange Property other than Kansas City, St. Louis and Joplin)

(1) The Commission finds that collectively as of December 31, 1941, the cost of reproduction new, cost of reproduction new less depreciation, and the original cost of the property (including materials and supplies in each instance) of the Southwestern Telephone Company, used and useful in rendering local exchange telephone and allied service to the public in the exchange areas at the following cities, towns and villages in the state of Missouri: [List omitted.] the value of the associated materials and supplies included in such amounts and the amount of the allowable cash working capital for said exchange areas collectively (not included in such amount) determined on the station-to-station basis, all as more fully explained in the Report filed concurrently herewith, were as shown in the following table:

Cost of Reproduction New .....	\$12,128,027
Cost of Reproduction New Less Depreciation .....	10,523,727

57 PUR(NS)

Original Cost .....	12,132,507
Materials and Supplies .....	90,780
Cash Working Capital .....	81,164

(table ee)

(2) The Commission further finds in this connection that it is not necessary at this time to make a specific finding applicable to each of the local exchange areas described above, but that the record and evidence in this case are in such condition that specific findings can be made as to any of the local exchange areas above named if, as and when the necessity for so doing is brought to the attention of the Commission; and the Commission reserves the right to make separate specific findings as to any of such local exchange areas at any time in the future, based upon the record and evidence in this case, in like manner and with same force and effect as though specifically stated herein.

Ordered: 3. That for the reasons stated in the report filed concurrently herewith, the Commission deems it in the public interest to defer decision and the making of formal finding upon all matters and questions upon which evidence was introduced and which have been raised and presented by the parties in the course of this proceedings, which are not specifically decided or expressly included in these findings, until such matters and questions appear and are raised and presented in subsequent proceedings, nothing in the report filed concurrently herewith or in these findings and orders to be construed as a decision, a formal finding or final determination of those matters and questions which are being reserved for future determination as in this paragraph described.

Ordered: 4. The Commission further orders that the case of Benjamin

## PUBLIC SERVICE COMMISSION v. SOUTHWESTERN BELL T. CO.

W. Grover v. Southwestern Bell Teleph. Co., a corporation, Case No. 8112, Bernard F. Dickmann, Mayor v. Southwestern Bell Teleph. Co. No. 9280, and Joplin v. Southwestern Bell Teleph. Co., No. 9528, be disassociated from this proceeding and returned to the Commission's general docket for such action in addition to that taken herein in each case respectively as may hereafter appear necessary and proper, with leave to the cities of Kansas City, St. Louis, and Joplin, and any other properly qualified interested party to take such further action there-

in as may be deemed prudent and proper.

*Ordered:* 5. That this order shall be in effect on and after thirty days from the date hereof and that the secretary of the Commission shall forthwith serve certified copies of same together with certified copies of the report in this matter filed concurrently herewith, on all parties to the proceedings and that each of said parties shall notify the Commission before the effective date of this order in the manner prescribed by § 5601 Rev Stats Mo 1939, whether the terms of this order are accepted and will be obeyed.

### NEW YORK PUBLIC SERVICE COMMISSION

## Re Filing of Cost-Plus Contracts

Case 9638  
February 26, 1945

**P**ROCEEDING as to filing of cost-plus construction contracts;  
rule amended.

*Construction and equipment, § 3 — Filing of contracts — Subcontracts on cost-plus basis.*

1. A subcontract on a cost-plus basis under a general cost-plus contract for construction, improvement, or extension of utility plant comes within the scope of orders requiring the filing of cost-plus contracts so that the Commission may determine whether public letting of the work should be required, since a subcontract, although nominally let in the name of the general contractor, is in effect the contract of the public utility company within the meaning of § 115 of the Public Service Law authorizing the Commission to regulate such contracts, p. 319.

*Construction and equipment, § 3 — Filing of subcontracts — Exemption of small contracts.*

2. A rule requiring public utility companies to file cost-plus subcontracts under general cost-plus contracts should be amended so as to except from the filing requirement subcontracts in an amount of \$1,000 or less, in view of the practice of letting small parts of the work under circumstances where filing of such subcontracts would be unduly burdensome, p. 320.

## NEW YORK PUBLIC SERVICE COMMISSION

**APPEARANCES:** Philip Halpern, Counsel, and Frank C. Bowers, Assistant Counsel, for the Public Service Commission; Whitman, Ransom, Coulson & Goetz (by Jacob H. Goetz), New York city, Attorneys, for Consolidated Edison Company of New York, Inc., Westchester Lighting Company, Brooklyn Edison Company, Yonkers Electric Light & Power Company, New York & Queens Electric Light & Power Company, New York Steam Corporation, and New York & Richmond Gas Company, Inc.; Cullen & Dykman (by Jackson A. Dykman), Brooklyn, Attorneys, for Brooklyn Union Gas Company; Naylor, Foster & Shepard (by Royal F. Shepard and George Foster, Jr.), New York city, Attorneys for New York State Electric & Gas Corporation, Staten Island Edison Corporation, The Patchogue Electric Light Company, and The Spring Brook Water Company; Goodwin, Nixon, Hargrave, Middleton & Devans (by Earl L. Day), Rochester, Attorneys, for Rochester Gas & Electric Corporation; Robert E. Ginna, Rochester, Vice President, Rochester Gas & Electric Corporation; LeBoeuf & Lamb (by Lauman Martin), New York city, Attorneys, for New York Power & Light Corporation, The Niagara Falls Power Company, Buffalo Niagara Electric Corporation, The Niagara, Lockport and Ontario Power Company, The Lockport and Newfane Power and Water Supply Company, Central New York Power Corporation, Old Forge Electric Corporation, Hudson River Power Corporation and System Properties, Inc.; John Howell (by W. T. Bauer), Buffalo 2, Attorney for Republic

Light, Heat & Power Company, Inc.; Charles G. Blakeslee, New York city, General Counsel, for Long Island Lighting Company, Queens Borough Gas & Electric Company, Kings County Lighting Company, Long Beach Gas Company, and Nassau & Suffolk Lighting Company; Louis J. Carruthers, New York city, General Attorney, for Long Island Rail Road Company, and Counsel, for Pennsylvania Railroad Company; F. L. Wheeler, New York city, Attorney, for New York Central Railroad Company; John J. Finnerty, New York city, Attorney, for Brooklyn Eastern District Terminal; M. M. McClelland, New York city, General Manager, Brooklyn Eastern District Terminal; E. R. Brumley and T. B. Jewell, New York city, Attorneys, for Trustees of New York, New Haven & Hartford Railroad Company; J. B. Sawyer, New York city, Attorney, for Boston & Maine Railroad; H. W. Smith, New York city, Attorney, for Lehigh Valley Railroad Company; Ignatius M. Wilkinson, Corporation Counsel (by Harry Hertzoff, Assistant Corporation Counsel), New York city, for the city of New York; Cravath, Swaine & Moore (by Jesse C. Millard), New York city, Attorneys for The Baltimore & Ohio Railroad Company, Buffalo, Rochester & Pittsburgh Railway Company, Buffalo & Susquehanna Railroad Corporation, and Staten Island Rapid Transit Railroad Company.

By the COMMISSION: By Chap 13 of the Laws of 1935, § 115 was added to the Public Service Law. This section provides:

"§ 115. Public letting of contracts.

## RE FILING OF COST-PLUS CONTRACTS

—The Commission is hereby authorized, whenever it is of opinion that the public interest so requires, to direct any public utility subject to the jurisdiction of the Commission to award contracts or agreements for the construction, improvement or extension of its plant, works or system, exceeding in amount \$25,000 in any calendar year, to the lowest responsible bidder, after a public offering has been made and after advertisement and notice of such offering have been given, and the Commission may prescribe rules and regulations relative to such advertisement, notice and public letting."

The Commission has not required the public letting of all construction contracts under the authority granted to it by this statute, but by order adopted September 8, 1938, amended on November 30, 1938, it required the filing of every proposed cost-plus contract so that the Commission might determine whether public letting of the work covered by the contract should be required. These orders were accepted by public utility companies, and, in compliance therewith, numerous cost-plus contracts were filed.

[1] Subsequently it was discovered that certain utility companies were using the device of so-called subcontracts to evade, and in certain cases entirely to nullify, the effect of the Commission's order. For example, after a cost-plus contract had been duly filed, and after the Commission had determined, upon an examination of its terms, that public interest did not require that the contract be submitted to competitive bidding, the general contractor would enter into

so-called subcontracts on a cost-plus basis, covering a substantial part of the work. These so-called subcontracts were not filed with the Commission and it was later discovered that certain of the subcontracts provided for exorbitant percentage fees to the subcontractor, far in excess of the fees provided in the general contract and in excess of those which could be regarded as reasonable and proper. If such subcontracts had been filed, the Commission would undoubtedly have ordered a public offering of the work.

It is the view of the Commission that a so-called subcontract on a cost-plus basis under a general cost-plus contract comes within the scope of its original orders. The public utility company which let the general cost-plus contract must pay in full for all subcontracts and fees in connection therewith. Where the general contract is on a cost-plus basis, a subcontract, although nominally let in the name of the general contractor, is in effect the contract of the public utility company, within the meaning of § 115 of the Public Service Law.

In order to clarify this point, the Commission amended its rules by the order adopted on August 5, 1944, and restated its earlier orders in the form of "Rules and Regulations Governing and Regulating the Letting by Public Utility Companies of Contracts or Agreements on a Cost-Plus Basis."

In adopting the view stated above, the Commission, of course, did not undertake to determine the legal relationship of the public utility company and the so-called subcontractor under the arrangement described above for any purpose other than the

## NEW YORK PUBLIC SERVICE COMMISSION

application of § 115 of the Public Service Law. The statement of the Commission's view in the recital in Rule 2 of the rules adopted on October 5, 1944, is merely a statement of the considerations which led the Commission to adopt the rule. This recital does not in any way increase or affect the legal liability of the utility company under the common law for the acts or omissions of a subcontractor. The recital does not constitute a part of the rule itself and an acceptance of the order does not commit the public utility to an acceptance of the recital.

The Commission adopted an order on November 30, 1944, directing that all interested persons be given an opportunity to be heard on January 11, 1945, with respect to the rules and regulations and to present their views and contentions with respect thereto. At the opening of the conference on January 11, 1945, the Chairman made the following statement for the Commission:

"This conference has been called by order of the Commission adopted November 30, 1944, for the purpose of giving all interested persons an opportunity to be heard with respect to rules and regulations prescribed by the Commission governing the letting by public utility companies of contracts or agreements on a cost-plus basis, and giving all such persons an opportunity to present their views and contentions with respect to said rules and regulations.

"This is not a formal hearing. No witnesses will be called. No one will be sworn. It is not contemplated that any findings will be made. All per-

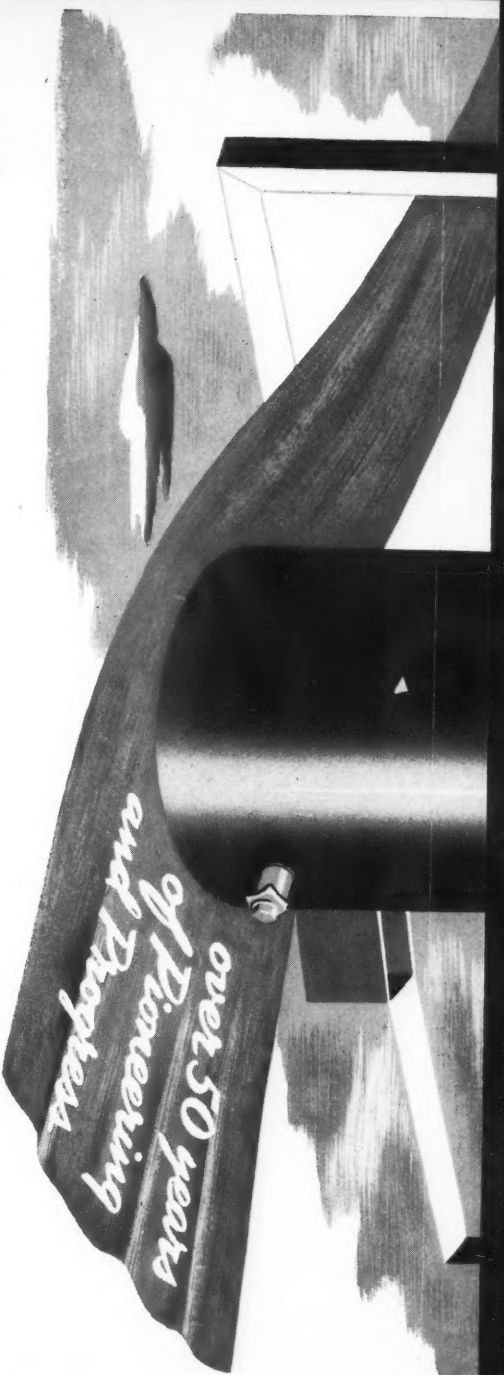
sons desiring to do so may present to the Commission any comment or argument which they believe will be helpful to the Commission in its consideration of the rules referred to.

"The rules are promulgated by the Commission pursuant to § 115 of the Public Service Law and are regarded by the Commission as an exercise of the administrative and legislative powers conferred upon it by that section. In this respect this hearing will resemble a hearing by a legislative committee rather than a judicial or quasi-judicial hearing."

The objection to the recital in Rule 2 of the proposed rules which was the principal point presented at the conference, has been adequately covered in the discussion above.

All of the other objections presented at the conference, and presented in writing by various companies, have been carefully considered, and, with a single exception, seem to us to require no change in the rules as adopted.

[2] The point was made that cost-plus subcontracts under general cost-plus contracts are often let for small parts of the work and that the requirement of filing under the rule, with the possible ultimate requirement of public letting, would be unduly burdensome in such cases. This point seems to be meritorious. The order will therefore be amended so as to except from the requirement of filing subcontracts on a cost-plus basis in an amount of one thousand dollars or less. In all other respects the rules as adopted seem to us necessary and proper to carry out the provisions of § 115 of the Public Service Law.

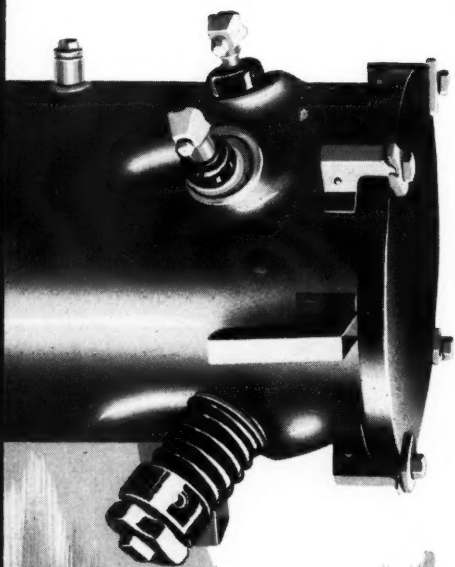


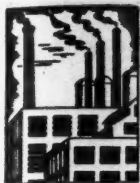
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# Industrial Progress

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## G. H. Blake Named President of Public Service of New Jersey

**G**EORGE H. BLAKE was elected president of Public Service Corporation of New Jersey and subsidiary companies April 17th by the board of directors of the corporation and subsidiaries at their reorganization meetings.

Thomas N. McCarter was reelected chairman of the board and Percy S. Young, chairman of the executive committee.

Mr. Blake succeeds the late Edmund W. Wakelee, who died April 26. Mr. Wakelee, who had been president since 1939, retired because of illness after many years with Public Service and predecessor companies.

Thomas N. McCarter, Jr., was elected executive vice president, the post held by Mr. Blake since 1943. For the past six years Mr. McCarter, Jr., has been vice president in charge of the company's southern division.

All other executive officers of the corporation and subsidiary companies were reelected or reappointed.

Frederick A. Lydecker was named vice president in charge of gas operation, Public Service Electric & Gas Company, and a director of the corporation's subsidiary companies succeeding John A. Clark who retires. Mr. Lydecker has been assistant vice president in charge of gas operation.

The new president of Public Service, George H. Blake, started with the company in 1910 as a trial attorney in Jersey City. He was made a director of the corporation in 1934 and a member of the executive committee of the board of directors a year later. Mr. Blake was promoted to vice president and general solicitor in 1937 and to executive vice president in 1943.

Thomas N. McCarter, Jr., has been a director of the subsidiary companies of Public Service since 1941 and a director of the corporation since 1943. Prior to coming to Public Service in 1937 he was vice president and a director of the Central New York Power Corporation, a subsidiary of Niagara Hudson Power Company of New York.

Frederick A. Lydecker started with Public Service in 1908 as a cadet engineer in the gas department.

## All-aluminum Ladders Now Available

**A** COMPLETE line of industrial ladders in all-aluminum tubular rail and channel rail construction is available for immediate delivery, according to an announcement by Duo-

Safety Ladder Corp. All-aluminum construction offers the advantages of light weight plus greater strength and safety.

A circular (AL-45) featuring heavy duty and light and medium industrial types in both single and extension models—folding ladders, marine boarding, scaffolding, light telephone and utilities, plus a heavy aluminum platform step ladder to be announced very shortly—has been issued. Copies of this broadside may be obtained from Duo-Safety Ladder Corp., 809 Ninth street, Oshkosh, Wisconsin.

## Combination Two-way Cable Connector Announced

**T**HE O. Z. Electrical Manufacturing Company, of Brooklyn, New York, has brought out a newly designed combination two-way connector that can accommodate several sizes of wire. High clamping pressure is exerted by the plates, held in place by socket-head cap screws. It can also be used as a reducing connector within the wire limitations of each size fitting.

Complete details of this and other new products, together with the regular O. Z. line are given in a new 140-page catalog. It illustrates and describes, with specifications and price lists, the full O. Z. line including conduit fittings, cable terminators, junction boxes, solderless connectors, power connectors, and grounding devices.

## Surface Combustion Consolidates New York City Offices

**A**LL New York city offices of Surface Combustion Corporation, with headquarters at Toledo, Ohio, have been consolidated at 315 Transportation building, 225 Broadway, New York 7, the company announces.

The move makes possible one centralized location for all divisions including the Janitrol gas-fired space heating division, Janitrol aircraft and portable heater divisions, industrial heating division, and the Kathabar humidity control division. The personnel and operations of each division continue unchanged.

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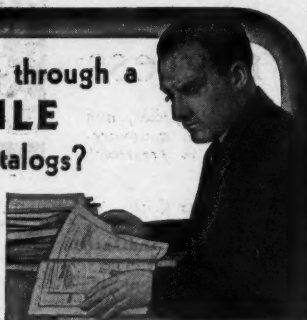
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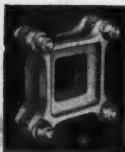
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## Utilities Establish Low Accident Record

FOUR hundred and fifty trucks and automobiles operated by the Pittsburgh group of public utility companies within the Columbia Gas & Electric Corporation, traveled 5,354,621 miles during 1944 and were involved in only 45 accidents, according to W. H. Adams, safety director of the Pittsburgh group.

Mr. Adams said that this was the lowest accident record in nearly 20 years of safety activity within the group which comprises the Manufacturers Light & Heat Company, the Natural Gas Company of West Virginia, the Cumberland & Allegheny Gas Company, and the Gettysburg Gas Corporation.

This public utility fleet is composed of 355 trucks and 95 passenger cars. The emphasis placed on the safe driving of these vehicles during 1944 resulted in the low accident frequency rate of .84 accidents for each 100,000 miles of travel.

Under the direction of Mr. Adams, group safety meetings of supervisors and employees are conducted frequently throughout Pennsylvania, West Virginia, Ohio, and Maryland. Frank discussions are held pertaining to driving hazards and corrective measures which might be taken to eliminate or reduce the possibility of accidents. The utility employees are encouraged to offer safe driving suggestions. Their ideas are presented at supervisory personnel meetings for investigation and possible adoption.

The automotive transportation safety record within the Pittsburgh group of companies is maintained on a monthly basis. All production, transmission, and distribution districts and divisions are regularly advised of their standing in the competition.

## Paint Protects Wood Against Fire

A NEW Underwriters approved paint which protects wood and other materials against fire hazard is announced by the General Detroit Corporation and the General Pacific Corporation. Called Fi-Repel, it is endorsed by Underwriters' Laboratories and other leading testing bureaus for protection of all interior combustible surfaces.

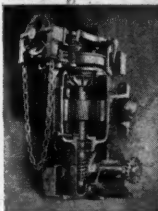
Fi-Repel is made for use in factories, warehouses, hangars, garages, and wherever else fire protection is necessary. It is shipped as a concentrated paste. After dilution it can be applied with a brush or spray gun to the surface to be protected. One concentrated gallon, at standard dilution, will cover as much as 185 square feet with two coats. Standard color is bone-white, but tints may be easily added.

In a recent test made by the Portland, Oregon, fire department, two identical wood structures were subjected to fires of burning oil. One, painted with Fi-Repel, suffered only minor charring, while the untreated wood

(Continued on page 37)

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This means marshaling your plant drive to make every pay-day 'til June 30th do its share. Directing the drive is not enough. Check to see that your directions are carried out—intelligently!

For example, has every employee had:

- 1 an opportunity to see the new Treasury film, "Mr. and Mrs. America"?
- 2 a copy of "How To Get There," the new Finance Division booklet?
- 3 a new bond-holding envelope with explanation of its convenience?
- 4 7th War Loan posters prominently displayed in his or her department?
- 5 information on the department quota—and an urgent personal solicitation to do his or her share?



Meeting—and beating—your highest-yet 7th War Loan quota calls for "No. 1" executive ability. Your full cooperation is needed for a fine showing in the 7th! Do not hesitate to ask your local War Finance Chairman for any desired aid.

*The Treasury Department acknowledges with appreciation the publication of this message by*

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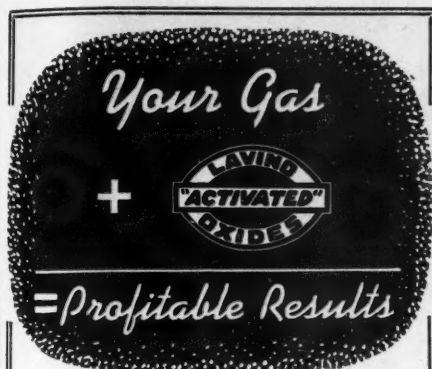
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### New Robins Conveyors, Inc. President Elected

**T**HOMAS ROBINS, JR., was elected president of Robins Conveyors, Inc., by board members at a recent meeting in Passaic. He succeeds Thomas Matchett, president since 1928, who announced that he is retiring from an active part in the management.

Thomas Robins, Sr., founder of the company and chairman of the board, in behalf of the company's directors expressed appreciation for the part Mr. Matchett had played over a period of many years in building up the company and expanding its business.

Thomas Robins, Jr., has been chairman of the executive committee for the past five years. He is also president of Hewitt Rubber Corporation in Buffalo; vice chairman of the board of directors, National Synthetic Rubber Corporation, Louisville, Kentucky, which operates one of the Government-owned synthetic rubber plants; a director of the Federal Reserve Bank of New York, Buffalo Branch; and a director of the Marine Trust Company of Buffalo and Niagara Share Corporation. Currently he is vice president of the Buffalo Chamber of Commerce.

### New Directors and Officials Announced

**A**T the annual meetings of The Okonite Company and The Okonite-Callender Cable Company, Inc., held recently, the following new directors and officials were elected or appointed:

A. F. Metz was elected vice president of both companies and a member of both executive committees. Mr. Metz, who was also re-elected treasurer of both companies, has been a director of The Okonite Company since 1928 and of The Okonite-Callender Cable Company, Inc. since 1941.

E. J. Garrigan was elected a director of both companies and, in addition, reappointed vice president and factory sales manager.

A. L. McNeill, who was recently appointed district manager of the companies' Chicago territory, was also appointed a vice president of both companies.

John L. Griggs of Paterson, New Jersey, was elected a director of The Okonite-Callender Cable Company, Inc.

### Westinghouse to Change Name

**S**TOCKHOLDERS of the Westinghouse Electric and Manufacturing Company at their recent annual meeting voted to change the company's name to Westinghouse Electric Corporation for simplicity and brevity.

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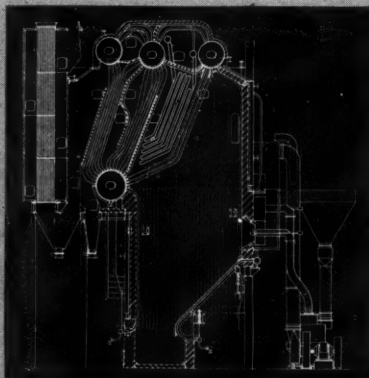
# PRACTICAL PLANS for

In the wake of this war will come new jobs for steam . . . new opportunities . . . new problems . . . keener competition . . . that will put renewed emphasis on power plant reliability, efficiency, and operating costs.

When the urgency of war production begins to unwind into the pattern of peacetime competition, power plant engineers will want to be ready in advance with step-by-step plans for urgently needed modernization and expansion of existing facilities. Properly drawn, such plans will help speed reconversion of their own industries and hasten action in providing for fully integrated power services having the high overall efficiency and flexibility for changing conditions that future operations will demand.

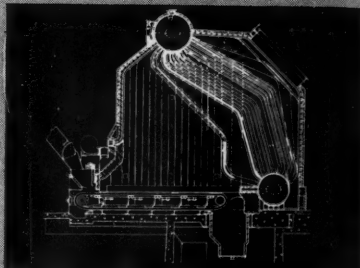
Thinking and planning for tomorrow today is a job B&W engineers are ready to tackle in partnership with power engineers of industry. Their long leadership in meeting steam power requirements has been greatly augmented by much more valuable experience gained in serving the industry war needs.

When the time comes to specify equipment for the future, there is a B&W boiler for any combination of conditions . . . capacity, pressure, temperature, feed-water, fuel and space . . . to be met. Whatever the type needed, it is built for the job, thus assuring the highest standards of performance, continuity of service, high overall station economy and greatest return on the investment.



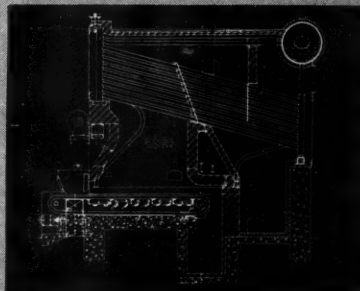
**STIRLING BOILER**

The Stirling Boiler fully meets the requirements of modern operating conditions. It readily responds to sudden and heavy demands for steam, and delivers dry steam at relatively high ratings when operated with water having a high concentration of solids. May be fired with any fuel.



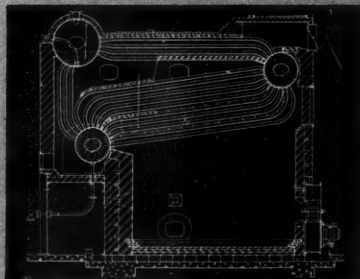
**B&W INTEGRAL-FURNACE BOILER (CLASSES 9, 12 & 15)**

This Integral-Furnace Boiler is available for firing with stokers or with oil, and in sizes ranging from 1353 to 4506 sq. ft. of heating surface. Having a water-cooled furnace of special design, this boiler provides the dependability of central-station boilers, with efficient and smokeless combustion.



**B&W DESIGN 32 CROSS-DRUM BOILER**

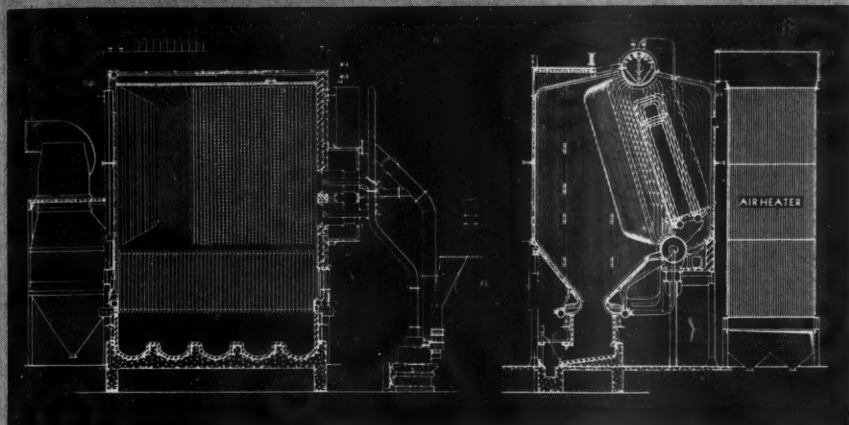
This unit is widely used in small and medium-size power plants where refractory furnaces are suitable. It provides the advantages of the straight-tube, sectional-header construction used in B&W Cross-Drum Boilers designed for larger capacities.



**TYPE H STIRLING BOILER**

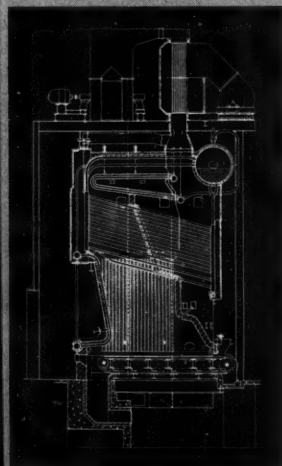
A low-head moderate-pressure unit that is widely used in small industrial plants, institutions, hotels, office buildings and to meet other similar requirements. Available in capacities ranging from 1500 to 30,000 lb. steam per hr. and for firing with any fuel. The furnace, usually of refractory, provides the necessary degree of dependability.

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The Integral-Furnace Boiler is a completely co-ordinated unit built in capacities up to 250,000 lb. steam per hr. and for the pressures and temperatures required by the most up-to-date and efficient prime movers. It is designed to burn pulverized solid fuels, oil, or gas, singly or in combination, thus utilizing at high combustion efficiency the least expensive fuel obtainable in any locality.

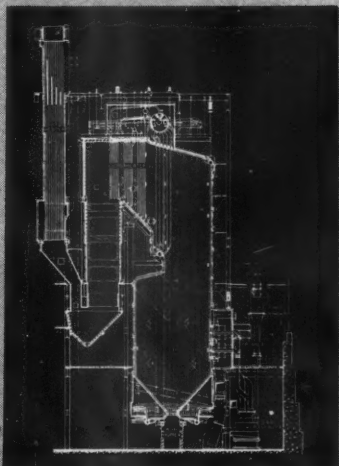


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High-duty boilers for central-station service are available in several basic designs to meet the requirements of individual stations. The Radiant boiler unit illustrated is typical of some of the units now operating at high rates in utility plants.



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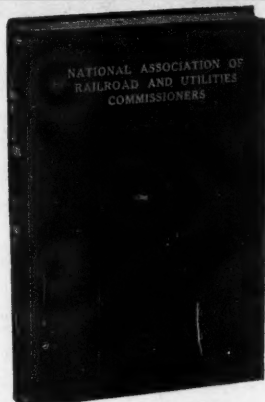
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Marine fireworks on bloody Iwo Jima, as pyramids of projectiles rain death on Japanese emplacements. Rocket launchers are mounted on International four-wheel-drive trucks.  
—Official U. S. Marine Corps Photo by S/Sgt. Rex M. Robbins.



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